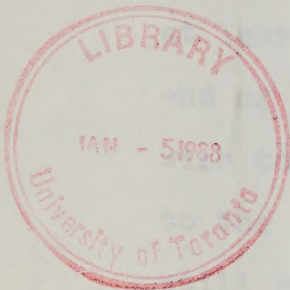


FIRST MINISTERS' CONFERENCE  
CONFÉRENCE DES PREMIERS MINISTRES

ESTABLISHMENT OF THE CICS  
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(EXTRACT OF PAGES 437 TO 448 FROM VERBATIM TRANSCRIPT)

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MR. HON. J. J. HENRY: THE HON. J. J. HENRY

one more item to deal with, the minutes of the  
Secretariat, and I am told that the committee  
is going to be asked to take into account the  
provisional report. However, it will be ready  
at least on the evening of Thursday the  
end of this discussion. I think we will probably  
wish to adjourn on Wednesday. The first minute  
to the other room to reconcile any differences which  
still remain in the committee. I would hope however  
that will be out of here at 3 o'clock, or earlier  
if possible, but I am in your hands. I am in your hands.  
The minutes of the Secretariat.

Following the November 1971 Conference,

President David asks that I take up the first item.

That minutes are the first item. I am in your hands.

Minutes of last year are asked for comments or

minutes of the various sessions. I am in your hands.

We have a report from the first session. I am in your hands.

It is by letter and we are also in your hands.

Minutes of the committee. I am in your hands.

Minutes of the committee. I am in your hands.

Minutes of the committee. I am in your hands.

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Minutes of the committee. I am in your hands.



RT. HON. P. E. TRUDEAU: We have just one more item to deal with, the future of the Secretariat, and I am told that the communique is being re-drafted to take into account the provincial inputs. Hopefully it will be ready, at least on the several first items, by the end of this discussion. If not, we will probably wish to adjourn anyhow with the First Ministers to the other room to reconcile any differences which still remain in the communique. I would hope however that we will get out of here at 3 o'clock, or earlier if possible, but I am in your hands.

The future of the Secretariat:

Following the November 1971 Conference, Premier Davis asked that I write to all Provincial First Ministers about the Secretariat. I did so in March of last year and asked for comments on a number of relevant questions.

We have since heard from eight First Ministers by letter and have received orally through officials the comments of a ninth province. It is clear that with one exception all who responded are in favour of having the Secretariat serve First Ministers on a continuing basis, and that they also favour having the Secretariat serve other ministerial committees on a selective or experimental basis.



That makes nine out of ten; one province has not answered yet and we don't know what their position will be, but it may all sort itself out here.

One Premier did have reservations about giving the Secretariat some permanency, and he suggested that if we want to create a general purpose Secretariat it should be on the model of the one which serves the Canadian Council of Resource and Environment Ministers. We in the Federal Government are doubtful about this suggestion; we prefer to base a continuing Secretariat on the existing model and it is our impression that this is also the preference of most provinces.

We have circulated to you a paper which sets forth the kind of arrangements that we think would be workable and that would produce a useful result. You will find it under Tab 6 of the briefing book.

That is as much as I think I have to say on this. There are details in the paper. Eight out of nine provinces who have spoken are in favour and one province is against. It would see another type of Secretariat. Perhaps I should ask Premier Davis to lead off since he is the one who I think first showed great interest in the subject.

HON. W. G. DAVIS: We support the concept of the Secretariat. I have a paper, which I won't read, which contains just one or two sort of



administrative suggestions, but in principle we continue to support the function of the Secretariat.

RT. HON. P. E. TRUDEAU: I appreciate this kind of procedure. If there are minor points, we certainly could work them out and perhaps circulate a final paper to you, without doing it this afternoon, but it would be important that we know either verbally or in writing what modifications you want to see to this proposal that we have put together based on what I think is something of a consensus.

Is there anyone else who wishes to speak?

HON. G. A. REGAN: I don't have a paper

to file in the matter, Mr. Chairman. I only want to say that I think that the alacrity with which most provinces are prepared to support the future permanency of the Secretariat can be to some considerable degree attributed to the excellent service that the

Secretariat has provided at Conferences of this type in recent years and because of the high esteem in which I know that a considerable number of us hold Mr. Davis and his associates in the Secretariat.

I would like to say that the excellent manner in which they have carried on their Conferences is probably the principal factor that leads Nova Scotia to strongly support the proposal.

French.



LE TRES HONORABLE P.E. TRUDEAU:

Monsieur Bourassa.....

L'HONORABLE ROBERT BOURASSA:

Dans l'ensemble, la proposition que vous avez transmise aux provinces au sujet de l'avenir du secrétariat de la Conférence Constitutionnelle convient au Québec.

Un seul point. Cette proposition stipule en ce qui concerne l'adoption du secrétariat, un personnel d'encadrement, que le secrétaire en ait la pleine responsabilité - ce qui nous semble nécessaire pour la bonne marche des choses, mais elle laisse à la discrétion du secrétaire le soin de recourir, lorsqu'il le juge souhaitable et possible, à du personnel détaché du gouvernement fédéral et provincial. Hors, nous tenons, quant à nous, à ce que le secrétaire ait l'obligation de faire appel au divers gouvernements pour qu'ils lui fournissent sur base temporaire ou permanente le personnel requis.

LE TRES HONORABLE P.E. TRUDEAU:

Est-ce que vous parlez du personnel de recherche ou d'administration à ce moment-là - d'administration, je présume?

L'HONORABLE ROBERT BOURASSA:

Oui.

LE TRES HONORABLE P.E. TRUDEAU:

Très bien. Car, sur la recherche, on est même pas d'accord que le secrétaire s'en initie lui-même.

L'HONORABLE ROBERT BOURASSA:

Comme on l'a fait pour cette conférence.

(ENGLISH FOLLOWS)



RT. HON. P. E. TRUDEAU: Premier Hatfield?

HON. R. B. HATFIELD: Mr. Chairman, I

think that the Council of Maritime Premiers wrote to you expressing the view basically that Premier Regan expressed. I would like to add just one more suggestion, that consideration be given to the Secretariat being available to the Premiers' Conference which is held each year, if that is within their workload capacity.

RT. HON. P. E. TRUDEAU: We certainly have no objection in principle to that. We feel that the Secretariat will have to develop more or less on a trial and error basis. I understand some ministerial conferences, such as the Triennial Conference, view the Secretariat with some degree

of success. If the Secretariat itself feels it can service the provincial Premiers, we would have no objection, but we would not like to launch a great Secretariat with many personnel and then reduce it because there was not enough continuing work. Subject to that the principle would be agreeable to us.

HON. G. A. REGAN: That would be agreeable to us.

RT. HON. P. E. TRUDEAU: So long as we don't ask the Secretariat to do your research for you.

HON. M. STRACHAN: We would like to see the Secretariat continued and extended in the way Premier Hatfield suggested. We are of the opinion



that it should perhaps be independent of any one Government and we are prepared to go on a cost-sharing arrangement and have some say as to the budget, because again we don't want to build a bureaucracy, but we think it has an important part to play. For that reason we think it would be wise to start in a modest way, both budget and personnel, in order to achieve this. We are, however, interested in establishing a permanent Secretariat that would assist the meetings of First Ministers and other ministerial meetings and perform the kind of work that has up to now been performed by the Secretariat. If it can be established on a modest scale we are quite prepared to participate and help finance it.

ALBERTA: Mr. Chairman, Alberta's position, which is contained in the briefing book provided you by Mr. Lougheed, is in similar detail to your paper which you have presented. Also, in dealing with the responsibilities to any one Government, it seems to us that the responsibility should clearly lie with the Chairman, as Chairman, and the separation between his position of Chairman and Prime Minister. We assume that is the rule indicated in the paper which you have provided.

HON. S. CHERNIACK: I have the feeling somehow that Manitoba is the only one that has been less than positive in accepting your proposal.



You have not pointed out the province that was negative and I don't say that Manitoba is negative but I would say that Manitoba is not enthused. I say that in full recognition that Mr. Davis himself is an adornment to these meetings and I support what Premier Regan said. Nevertheless, the person who occupies the position should not influence the decision, since he may well wish to go to more interesting and challenging work than he now has. We have just announced an election and he may well qualify as a candidate.

Mr. Chairman, I think that in the four years that our Government has attended meetings of Ministers, provincially and federally, we have always been well served. In finance I think we have been well served by the Federal Department of Finance.

I think we have never had any complaint about the manner in which the meetings were served by the administrative staff. There may always be a question, of course, as to independence, as referred to by Mr. Getty and there might in fact be thoughts that independence with integrity is to be expected and I think we have had that experience. Nevertheless, there is always the question of not apparent and not imposed bias; there is always that possibility, so that really does not matter.

We feel that we have managed very well in the last four years anyway and we don't quite



see the need for the creating of a bureaucracy that will serve meetings that may be frequent or may become very infrequent. There does not seem to be much point to that in view of the facts that we have been well served. If it does appear that all the provinces except the one that has not spoken wish to have it, by all means, of course, but we are just not impressed by the validity of the argument or the need for it.

RT. HON. P. E. TRUDEAU: If I can comment on a couple of these suggestions: Mr. Strachan's suggestion that there be a certain cost-sharing in the budget of the Secretariat we have no objection to in principle. We are perfectly happy to bear all the costs, but we are also happy to share them. It would be a matter of, perhaps, seeing who wants to volunteer and put in some money and we can arrive at some arrangement, perhaps informally through the Secretariat.

HON. D. BARRETT: We feel we should all bear our share, then we have some say in the budget and some control over one another.

RT. HON. P. E. TRUDEAU: I certainly agree with that and Mr. Cherniack's point that we don't want a great bureaucracy built up. That is why we object to the suggestion by some provinces that the Secretariat have any authority in its own right of setting up research programs, for instance, and hiring experts to look into subjects that we might want to embark upon. I would even want to go further



and when Mr. Cherniack talked about our proposal, yes, we are making it our proposal now, but you will recall the origin of the whole question began after Victoria when it seemed that the constitutional debate process was going to fold up for a while. We had a very large staff, which had been very ably serving those on-going committees of First Ministers, Ministers and even the Continuing Committee of Officials, and so on.



We just saw no purpose in holding it together and we pretty well disbanded it. It is at that point that some First Minister said well, hold your horses, don't disband it completely; we might want to keep it on as a focal point of other types of conferences.

We were, of course, very happy to keep Mr. Davis and a small core. What we are really debating now is the kind of permanence that you want to see given to this institution. Even if Manitoba is not enthusiastic it might even be our position -- we are not wildly enthusiastic but we think it is a useful institution and perhaps we should let it develop very gradually along the lines of comments that have been made here.

I just looked at something that Premier Davis wrote in his memorandum. I am reluctant to raise some new issues but from looking at it briefly there are obviously some areas that would call for further debate by us either bilaterally or here.

There is the suggestion, for instance, that the agenda be negotiated between eleven government officials chaired by Mr. Davis. Certainly a worthwhile suggestion but I would like to argue against it before accepting it. I rather like the agenda set up on a direct basis between the Premiers and the Prime Minister. The politics of it I think we are very much more aware of



than a group of officials, even chaired by Mr. Davis, who might arrive at very fancy agendas. I know Mr. Bourassa is interested in the same view as Mr. Davis. I don't want to preclude it but I don't want to promise we will solve this without further debate and I don't sense a great desire to go into that debate today. Perhaps we should accept the general lines of the paper I circulated to you without saying that is definite. We should either at further meetings of First Ministers, or perhaps by bilateral talks, advance the discussion on these points and if we do decide to accept Mr. Davis' proposal then we will submit it to all of you. Until it is cleared between us I don't suppose there is much point in debating it collectively unless it is desired to do so.

HON. W. G. DAVIS: I have no firm desire to do so, Mr. Chairman. It is just a suggestion. There is nothing to preclude either yourself or any First Minister saying we want this but we thought it might save everybody just a little bit of time in the process; but it is not a major item.

RT. HON. P. E. TRUDEAU: I know Mr. Bourassa wrote me along the same lines and I answered him generally that if there were some informal meeting of officials that we sent down for this ad-hoc purpose that it might be advantageous when we had enough planning time. I would not want to see a continuing committee of officials whose job



is to work out agenda items for some hypothetical conference.

Perhaps there is not a great deal of difference between our points of view.

HON. G. REGAN: Since the Maritimes are high on integration these days I just wonder since the Secretariat is being given a permanency in its role whether there would be any advantage to have it in some way tied in with the functions of the Commonwealth Parliamentary Association, which affected the provinces as regards the Canadian branches and the nation as regards the international. Perhaps you have another organization that does that?

RT. HON. P. E. TRUDEAU: Yes, we do have. We do have a staff which does look after Parliamentary Associations and they certainly would be at your service if you need them.

Are there any other comments on this? Then let us conclude that we are encouraging, at least for the time being, the Federal Government not to disband its Secretariat but to keep it. We would intend in that case to keep on Mr. Davis and a nucleus around him. If enough federal-provincial meetings of other Ministers, like the Tri-Level Conference, call for his services more and more, or inter-provincial meetings, it will be built up slowly and will develop into a larger Secretariat. I think the conclusion I am drawing is there is a willingness for



us to keep the nucleus and see it grow slowly. That is the answer to the suggestion that you put to me last March, or two years ago, when you said don't disband it completely. That is agreed.

HON. W. G. DAVIS: You realize, Mr. Prime Minister, that is probably the one item on the agenda where we have come pretty close to achieving consensus.







FEDERAL-PROVINCIAL CONFERENCE  
OF  
FIRST MINISTERS

Communiqué  
Conference of Federal and Provincial  
Ministers of Trade and Industry  
January 30, 1978

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Ottawa  
February 13-15, 1978







January 30, 1978

January 30, 1978

Federal and Provincial Ministers of Trade and Industry have completed today a successful meeting covering the performance of the manufacturing sector, the various government policies which affect manufacturing performance, and the structural problems that need to be addressed over the next few years.

The Ministers of Trade and Industry agreed that economic development should have the highest priority in policy making at all levels. Recognition must be given to the natural advantages of each region. Ministers recognized there are no simplistic solutions to the economic problems facing Canada.

In addition to policies affecting individual sectors, a number of general policies were discussed which have had an adverse influence on the performance of Canadian manufacturing. In view of the more rigorous competitive conditions existing today and anticipated for the 1980's, modifications in some of these policies are essential to enable the manufacturing sector to maximize its contribution to overall economic performance. Most Ministers were particularly concerned about excessive growth of the public sector both in numbers of officials and expenditures. Over-zealous protection of the environment was another concern.



Unemployment insurance compensation limits were discussed. Both levels of government must ensure that government regulations, paperwork requirements and licensing procedures are designed to promote rather than hinder economic development. The importance of transportation costs was stressed. Other policies discussed included: minimum wage laws, taxation, exchange rate, commercial policy and research and development policy.

Some Ministers noted the important contribution the Federal Department of Regional Economic Expansion was making to economic development across Canada.

Ministers further agreed there should be a continuing consultative process among governments and with business and labour.

Ministers also reached agreement on a number of basic facts concerning the role of primary and secondary manufacturing in the economy and its key contribution in terms of incomes, direct and indirect employment, and maintenance of a viable balance of payments position. Further details are set out in the document entitled "Manufacturing Performance", which was developed for the meeting by the federal government in consultation with provincial governments. In addition, Ministers noted the implications for Canadian manufacturing prospects of attaining the growth targets developed by the federal Department of Finance.

Ministers recognized that past performance and the prospects for the future varied from province to province and from industry to industry. There was a discussion of the implications for all of Canada's economic regions, based on a background paper, "Canadian Manufacturing Prospects from a Regional Perspective", prepared by the federal Department of Regional Economic Expansion. Ministers agreed on the need for further consultation between governments on this analysis and its implications. Ministers also received a number of sector profiles describing the situation in various industries, as an information base for possible future action.

Ministers discussed the importance of developing a viable and competitive small business sector. It was noted by the federal Minister of State for Small Business that he announced last fall a Small Business Policy for Canada. A number of provinces noted that they have already included small business at the centre of their industrial strategy and established a range of small business policies and programs. In the light of this common interest, Ministers agreed that considerable scope exists for federal and provincial governments to work together to achieve the most efficient allocation of resources devoted to the development of a strong and viable small business sector in Canada.

Another major item on the Ministers' agenda was the need for industrial adjustment programs which will be required to meet the changes in the competitive environment anticipated during the 1980's. An important prerequisite is improvement in the horizontal policies referred to earlier. There are a number of industrial sectors in which sectoral factors have led to a serious competitive decline and therefore special sectoral adjustment policies are required. For



this reason, sectoral policies have been implemented for the textiles and clothing, footwear, shipbuilding, and consumer electronics sectors. While acknowledging that these policy initiatives were required, Ministers also contended that in a reasonably healthy economy, much of this adjustment will be achieved by the private sector without specific government intervention.

There remains concern regarding other adjustments that may be required as a result of the Multilateral Trade Negotiations. The recently implemented Enterprise Development Program of the federal Department of Industry, Trade and Commerce now offers adjustment assistance to business firms, and a number of provinces have similar programs. Provincial Ministers noted with interest the proposal of the federal Minister of Industry, Trade and Commerce to empower the Enterprise Development Program to respond with special measures to the needs of firms facing adjustment pressure arising from the MTN. These procedures would enable the Enterprise Development Board to consider applications from MTN-related adjustment cases, to identify such cases, and to offer special forms of assistance under the EDP framework. Provincial Ministers stressed the need for close coordination of federal and provincial activities in this sphere.

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News Release

Communiqué

Office of the  
Coordinator  
Multilateral Trade  
NegotiationsBureau du  
Coordonnateur  
Négociations commerciales  
multilatérales

Subject/Sujet

CANADA TABLES STATEMENTS ON PARTICIPATION IN THE MULTILATERAL  
TRADE NEGOTIATIONS

For release/Pour publication

January 19, 1978

Immediate

5/78

The Canadian Delegation in Geneva has been authorized by the Government to table with the Secretariat of the General Agreement on Tariffs and Trade statements formally setting out the basis on which Canada will be participating in the industrial tariff negotiations.

In making public these statements, the Secretary of State for External Affairs, the Minister of Finance and the Minister of Industry, Trade and Commerce emphasized the importance of these negotiations to Canada. They said that the statements reflected Canada's determination to achieve overall reciprocity and to ensure that Canada's special interests and concerns are fully taken into account in the negotiations.

The tabling of these statements comes at the beginning of the intensive phase of the multilateral trade negotiations as the leading trading countries set out the basis for their participation. These negotiations cover not only industrial tariffs and non-tariff barriers but measures affecting trade in agricultural and fishery products as well. Ministers noted that Canada has major interests in each of these areas.

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Agreements reached in Geneva will have an important bearing on the international framework for trade and production for many years to come. In this context Ministers underlined the importance of ensuring that such agreements are responsive to Canadian interests and that the benefits to Canada are shared by all sectors and regions of the country.

Ministers pointed out that the first of the statements which the Delegation will be tabling indicates the basis on which Canada is prepared to enter the negotiations on industrial tariffs. The second statement sets out a proposed basis for complementary negotiations designed to achieve the greatest possible liberalization of trade in certain resource-based sectors. Copies of these statements are attached.

Ministers emphasized that Canada is prepared to participate in the industrial tariff negotiations on the basis of the elements and considerations set out in these statements, subject to the willingness of other major trading countries to enter on the basis of the same elements, and to the achievement of overall reciprocity. For Canada to achieve such reciprocity, satisfactory progress will need to be made in three areas of particular interest to Canada: the elimination or substantial reduction of many of the low tariffs faced by Canadian exports; the elimination, reduction and bringing of certain non-tariff measures under more effective international control; and the greater liberalization of tariff and non-tariff barriers to trade in the key resource-based sectors

of forest products and non-ferrous metals. Trade liberalization through these negotiations should contribute to the Government's objective of bringing about further processing and manufacturing of raw materials prior to export.

In developing its position on the negotiations, the Government has had close consultations with the Provinces. It has also had the benefit of hundreds of submissions from individual Canadian firms, industry associations, business and labour groups, which have been followed up in many cases by direct consultations. The consultations will continue and intensify in the months ahead.

Ministers pointed out that the Government is very conscious that, in certain cases, there may be a need for special assistance to facilitate adjustment to new market opportunities and new competitive conditions. The provision of such assistance to Canadian industry has been an important function of Government for many years and a considerable range of programs is already available to facilitate adaptation to various kinds of changes. While a large part of the Government's role in the adjustment process will be concerned with creating and maintaining a business environment as favourable as possible to such adjustment, it is recognized that special help should be available where it is needed. In this regard, it is the Government's intention to work very closely with the Provinces.





Multilateral Trade Negotiations  
Canadian Participation in the  
Industrial Tariff Negotiations

January 19, 1978  
OTTAWA, Canada





The Tokyo Declaration, which governs these negotiations, provides inter alia that:

"The negotiations shall aim to achieve the expansion and ever greater liberalization of world trade... objectives which can be achieved, inter alia, through the progressive dismantling of obstacles to trade...

- coordinated efforts shall be made to solve in an equitable way the trade problems of all participating countries, taking into account the specific trade problems of the developing countries...

- the negotiations should aim, inter alia, to conduct negotiations on tariffs by employment of appropriate formulae of as general application as possible...

- the negotiations shall be conducted on the basis of the principles of mutual advantage, mutual commitment and overall reciprocity, while observing the MFN clause, and consistently with the provisions of the General Agreement relating to such negotiations.

- participants shall jointly endeavour in the negotiations to achieve, by appropriate methods, an overall balance of advantage at the highest possible level...

- the negotiations shall be considered as one undertaking, the various elements of which shall move forward together."

#### The Basis for Tariff Negotiations on Industrial Products:

The Canadian Government has noted that a number of major participants have indicated their intention, subject to the achievement of overall reciprocity, to enter the negotiations on a basis which includes as elements:

- a working hypothesis having as its objective the reduction of industrial tariffs by a weighted average of forty per cent;



- the reduction of numerically higher rates by proportionately more than lower rates;
- provision for greater-than-hypothesis reduction;
- provision for less-than-hypothesis reductions or complete exceptions but such exceptions to be kept to a minimum;
- provision for the phasing-in of such tariff reductions over a period of at least eight years, the first reduction being made only after all major participants have implemented undertakings with respect to the main non-tariff measures; and
- the elaboration of provisions for special and differential treatment for developing countries.

The scope for Canadian participation in the industrial tariff negotiations on the basis of the elements indicated above, and Canada's ability to achieve reciprocity, will depend upon a number of considerations:

- the willingness of other major participants also to enter the negotiations on the basis of the above elements;
- the elimination or substantial reduction of many numerically low tariffs which face some ninety per cent of Canadian dutiable industrial exports to the markets of the other main participants;
- the degree of success achieved in eliminating, reducing and bringing under effective control certain non-tariff measures, and on the willingness of other participants to meet Canada's objective of a greater liberalization of tariff and non-tariff barriers in the key resource-based sectors of Canada's export trade (non-ferrous metals and forest products);
- reciprocity from developed countries which will not be participating under the working hypothesis, as well as from those which are participating on that basis, and from non-market economy countries: appropriate contributions in terms of access to their markets from the developing countries other than the least developed;
- full account being taken of the differential impact of tariff reductions on participants who value imports for duty on an FOB rather than a CIF basis;

- arrangements to assist adjustment to a more liberal trading environment and agreement on appropriate measures to facilitate the implementation of trade concessions, including the phasing-in process with respect to both tariffs and other trade measures.

The Canadian Government is prepared to enter the tariff negotiations with respect to industrial products on the basis of the above elements and considerations and the provisions of Article XXVIII bis. These together constitute the basis and define the potential scope of Canadian participation, subject to achievement of reciprocity in the multilateral trade negotiations as a whole.

The Canadian Government will be negotiating on the basis of Canadian tariff rates bound in GATT or, for products not covered by items bound in GATT, the permanent statutory rates.

#### Resource-Based Sectors of Trade

The Canadian Government would expect all participants to take full account of the interests of those countries, such as Canada, whose export interests are limited in number and are concentrated in certain resource-based sectors. To this end, it should be one of the objectives of participants, to be attained through complementary negotiations as necessary, to achieve the maximum degree of liberalization in such sectors through inter alia:

- tariff reductions and tariff harmonization greater than called for under the working hypothesis;
- the reduction or elimination of non-tariff measures or, where this is not appropriate, the reduction or elimination of their trade restricting or distorting effects, and the bringing of such measures under more effective international discipline; and
- institutional machinery and provisions to ensure that the liberalization of trade achieved in the MTN is appropriately preserved.

#### Low Duties

The great majority of Canadian dutiable industrial exports or potential industrial exports to the markets of other participants face numerically low rates. However, these rates are often high in terms of effective protection and have a decisive effect on trade and production. Accordingly Canada will be seeking substantial reductions in a number of such tariff rates, and indeed the elimination of many of them.



### Interests of Developing Countries

The Canadian Government agrees that there is scope for the application of special and appropriate differential measures in favour of developing countries. For example, in response to detailed product requests, it should be possible to consider:

1. greater reductions than called for under the tariff working hypothesis;
2. special efforts to offer some tariff reduction on items on which full reductions under the hypothesis are not possible;
3. the keeping of exceptions covering products of interest to developing countries to a minimum;
4. the phasing-in of agreed tariff reductions over less than the eight-year period envisaged;
5. modification of tariff product descriptions to permit application of the above measures should this not be possible under existing tariff nomenclature.

Multilateral Trade Negotiations  
Proposed Basis for Negotiations  
in Certain Resource-Based Sectors

January 19, 1978  
OTTAWA, Canada





Ministers agreed in the Tokyo Declaration that:

- "Participants shall jointly endeavour in the negotiations to achieve, by appropriate methods, an overall balance of reciprocity at the highest possible level...

- The negotiations should aim, inter alia, to... include an examination of the possibilities for the co-ordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique...

- The negotiations shall be considered as one undertaking, the various elements of which shall move forward together".

The Canadian capacity to achieve overall reciprocity in the negotiations will depend to an important extent on the elimination or substantial reduction of many numerically low tariffs which face some ninety per cent of Canada's dutiable industrial exports to the markets of the other main participants. It will also depend, inter alia, on the degree of success achieved in eliminating, reducing and bringing certain non-tariff measures under more effective control and on the willingness of other participants to meet Canada's objective of a greater liberalization of tariff and non-tariff barriers in the key resource-based sectors of Canada's export trade (non-ferrous metals and forest products).

In the Canadian view, the objective of sector negotiations should be to liberalize trade in a range of resource-based products, to reduce the trade-distorting effects of such restrictive measures as cannot be removed and to bring such measures under more effective international discipline. In order to ensure that the liberalization of trade thus achieved is not impaired, there should be rights and obligations



additional to those now in the GATT relating to impairment, surveillance and dispute settlement.

The results of these negotiations would complement the liberalization of trade being sought elsewhere in the MTN; they would, in fact, be expected to go further than would the general solutions. The Canadian Government does not exclude the possibility that progress towards the achievement of its sectoral objectives with respect to non-tariff measures and enforcement may be accomplished in the general negotiations.

Particular attention should be given in these sector negotiations to the important interests which are involved for developing countries.

#### Product Coverage

The Canadian Government envisages that sector negotiations would apply to raw, semi-processed and certain processed products in the non-ferrous metals and forest product sectors. The precise product coverage would be subject to negotiation.

The essential elements for sector negotiations should include:

#### Tariffs

Greater tariff reductions and a greater measure of tariff harmonization than called for under the general working hypothesis for the reduction of industrial tariffs.

#### Staging of Tariff Reductions

In order to meet the adjustment problems of some producers, the agreed reductions of most-favoured nation duties might be implemented over a period longer than that envisaged under the general rules for staging.

#### Export Measures

Certain participants have indicated an interest in the issue of supply. Canada is prepared to consider this issue in the context of sector negotiations which provide for substantial liberalization of trade. In such negotiations

Canada would be prepared to examine rights and obligations additional to those now in the GATT regarding security of supplies in these sectors. The sectoral negotiations could address, for example, provisions:

1. establishing the purposes for and the conditions under which export restrictions might or might not be used;
2. relating to the binding of export taxes and the circumstances surrounding their use.

#### Emergency Action

Emergency action affecting trade in products to be covered by sector negotiations can have serious effects on the economies of certain countries and on the availability of supplies of such products. The development of additional rights and obligations should therefore be considered, designed to avoid, limit or control recourse to emergency action affecting the trade in these products.

#### Government Procurement

To the extent that government procurement accounts for a significant part of the consumption of certain resource-based products, consideration should be given to provisions which would ensure that procurement laws, regulations, procedures and practices of public entities are based on non-discrimination between foreign products or suppliers and domestic products or suppliers.

#### Export Subsidies and Domestic Subsidies

Consideration should be given to detailed and specific rules with respect to subsidies and countervailing measures for trade in these sectors to the extent that an adequate framework of rules and obligations is not arrived at in the general negotiations.

#### Restrictive Business Practices

Sector negotiations might address provisions regarding restrictive business practices relevant to trade in these sectors.

Consultations, Nullification and Impairment

Sector negotiations should address the need for additional institutional machinery and arrangements to ensure that the agreed liberalization of trade is preserved. Account should be taken in this regard of progress in these matters in the general negotiations. Provision might also be made for an annual review of the trade and outlook in the sectors and of the operation of arrangements flowing from the sector negotiations.



Government  
of CanadaGouvernement  
du Canada

News Release

Communiqué

Office of the  
Coordinator  
Multilateral Trade  
NegotiationsBureau du  
Coordonnateur  
Négociations commerciales  
multilatérales

Subject/Sujet

Canadian Participation in the Multilateral  
Trade Negotiations

For release/Pour publication

January 24, 1978

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Attached is the text of a statement made in  
Geneva on January 23, 1978 by Ambassador J. H. Warren,  
Canadian Coordinator for Multilateral Trade  
Negotiations.

Copies disponibles dans la version  
française à l'adresse ci-haut mentionnée.  
Ottawa, Canada K1A 0H5  
Tél (613) 593-7815



## Canadian Participation in the Multilateral Trade Negotiations

Ambassador J. H. Warren, Canadian Coordinator for the Multilateral Trade Negotiations, made the following statement in Geneva yesterday to a gathering of high-level representatives from the major participating countries:

"It was six years ago - in February 1972 - that the Canadian Government decided to associate itself with joint declarations by the United States with the European Economic Community and with Japan, setting out their intention to engage in a comprehensive round of multilateral trade and tariff negotiations. In so doing, the Canadian Government considered that a further round of trade negotiations could be important and mutually beneficial. It would be useful in advancing Canadian interests, and would enable Canada to play its part in dealing with issues of concern to others and which impinge on us.

In September 1973, the Tokyo Declaration was adopted by Ministers and the new round of trade negotiations was officially launched. Since that time, the shared commitment and common will to negotiate have been reaffirmed at a number of international meetings, including three consecutive Summit Meetings of the leaders of the major industrialized countries.

It is evident that the political will to move forward has indeed been reflected in the negotiations as we move today to the detailed and intensive stage of the negotiations. The Canadian Government has tabled two papers which have been made public in Canada. One is entitled "Canadian Participation in the Industrial Tariff Negotiations", and the other "Proposed Basis for Negotiations in Certain Resource-Based Sectors". It will be clear from these papers that the Canadian Government joins its trading partners in seeking a meaningful outcome from the negotiations and is prepared to play its part accordingly.

I would like to explain our position in somewhat more detail. The Canadian Government has noted that a number of major participants have indicated their intention, subject to the achievement of overall reciprocity, to enter the tariff negotiations on the basis of certain broad understandings:-

- (1) A working hypothesis that would aim at the reduction of industrial tariffs by a proposed weighted average of forty per cent.
- (2) Within this context, numerically higher rates would be reduced by proportionately more than lower rates;





- (3) There would be provision for tariff reductions and for partial or complete exceptions, but such exceptions to be kept to a minimum;
- (4) Tariff reductions would be phased in over a period of at least eight years, the first reduction being made only after all major participants had implemented undertakings with respect to the main non-tariff measures; and
- (5) The elaboration of provisions for appropriate special and differential treatment for developing countries.

The scope for Canadian participation in the industrial tariff negotiations on the basis of these understandings and our ability to secure reciprocity will depend upon a number of considerations:-

- (1) The willingness of other major negotiating countries also to enter the negotiations on the basis of such understandings;
- (2) The elimination or substantial reduction of many numerically low tariffs which face some ninety per cent of Canadian dutiable industrial exports to the markets of the other main participants;
- (3) The degree of success achieved in eliminating or reducing and bringing under effective international control certain non-tariff measures, and the willingness of other participants to meet Canada's stated objective of a greater liberalization of tariff and non-tariff barriers in the key resource-based sectors of Canada's export trade;
- (4) Reciprocity from developed countries which will not be participating under the working hypothesis, as well as from those which are participating on that basis, and from non-market economy countries;
- (5) Full account being taken of the differential impact of tariff reductions on participants who value imports for duty on an FOB rather than a CIF basis;
- (6) Arrangements to assist adjustment to a more liberal trading environment and agreement on appropriate measures to facilitate the implementation of trade concessions, including the phasing-in process with respect to both tariffs and other trade measures.





The Canadian Government is prepared to enter the tariff negotiations with respect to industrial products on the basis of these understandings and considerations, and the provisions of Article XXVIII bis. These, together with the requirement of the Tokyo Declaration that "Participants shall jointly endeavour....to achieve by appropriate methods an overall balance of advantage at the highest possible level," constitute the basis and define the potential scope of Canadian participation.

Let me refer briefly to the issues involved in resource-based trade. The Canadian Government would expect all participants to take full account of the concerns of those countries, such as Canada, whose export interests are limited in number and are concentrated in certain resource-based sectors. To this end, it should be an objective of participants, to be attained, as foreseen in the Tokyo Declaration, through complementary negotiations as necessary, to achieve the maximum degree of liberalization in such sectors. The Canadian statement which has been circulated on this subject sets forth a number of particular ways whereby this objective might be achieved.

The great majority of Canadian dutiable industrial exports, or potential industrial exports, to the markets of other participants enter, as I have indicated, at numerically low rates. However, these rates are often high in terms of effective protection and can have a decisive effect on trade and production. Accordingly, Canada will be seeking the elimination or substantial reductions of such tariff rates.

Mr. Chairman, it should be clear from my statement today and from the two texts which have been circulated that the Canadian Government attaches major importance to dealing in these negotiations with non-tariff measures. I would wish to underline also Canada's substantial interest in the results of the negotiations with regard to agricultural and fisheries products.

The detailed supporting papers with respect to Canada's offers in these negotiations will be tabled very shortly.

In the days and weeks ahead delegations will, of course, be carefully examining the offers of others to judge the extent to which such preferred concessions meet national and, in the case of the EEC, Community objectives. We look forward to detailed negotiations with our trading partners leading to results which will bring real and lasting benefits to all participants. We are dealing with the trading framework for at least the decade ahead.



Much work remains to be done and many difficult sessions lie ahead; but we are at last getting down to the real business. With the necessary resolve it should prove possible to attain our goals".





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AUG 30 1978

Faculty of Management Studies  
University of Toronto

Notes for Remarks  
by Finance Minister Jean Chrétien

Ottawa  
February 13-15, 1978

Unemployment is a very serious problem in the country and a deep concern to everyone at this table. It is very high and very deeply rooted in some regions. It is far higher among women and young people than among adult men. We will have to continue to attack the unemployment problem on many fronts.

The federal government has acted to stimulate consumer and business spending and has mounted major programs of direct job creation. This year, as a result of the budget of last March, the further tax cut I introduced in October, and the tax cut effective January 1 from indexation, individuals will have their federal income taxes lowered by \$2.2 billion. The reductions and incentives provided to business in the March budget are worth \$900 million this year. The Canada Works Program and other components of the government's continuing employment strategy are devoting close to \$500 million per year to create jobs in the private and public sectors. This is being supplemented by \$150 million for direct job creation through federal works, and by \$100 million per year through the job tax credit.

Federal expenditures have been closely constrained. But the tax cuts and the new fiscal transfers to provinces have meant that the federal deficit has risen to record levels. I still expect federal government financial requirements to be in the \$8 1/2 billion range this year, up more than \$3 billion from last year. Next year a further substantial increase is expected, though the bulk of this increase is accounted for by the paying off of \$2 billion in accrued interest on Canada Savings Bonds.

These federal policies and the measures taken by provincial governments have helped. Although the unemployment rate rose to a peak of 8.5 per cent in December, the number of Canadians with jobs rose last year by more than 250,000. The Canadian economy seems to be growing more rapidly now. We have seen a big improvement in our foreign trade. Consumers and businessmen are becoming more confident about the future. I am looking for 5 per cent real growth in 1978. I have not been urged to lower my sights by my provincial colleagues or by the business leaders with whom we have consulted.



Even so, we have a long way to go. Our recent experience has shown that the federal government cannot do the job alone. The co-operation of all governments is needed. We also need to build a better partnership with business and labour. Even then, we will not be able to restore stable prices and full employment quickly or easily. This will take time. A major national effort is required.

This is why we have tried to look four or five years ahead, not just one year. I am sure First Ministers will be familiar by now with the material set out in our document, Canada's Economy - Medium-Term Projections and Targets. We think the targets are realistic. We can achieve them if we all respond to the challenge.

We are calling for average rates of growth of 5 1/2 per cent a year between now and 1981. This is about 1 per cent faster than the long run trend, so we would be cutting into the slack which now exists. Employment would grow faster than the labour force, and unemployment would fall - slowly perhaps at first, but then more quickly. We should be getting unemployment down toward 5 1/2 per cent by the end of 1981.

The strongest element in the recovery should be investment, especially in the energy field where major projects lie ahead of us. But we will also need a rapid growth in our exports, and more moderate growth in our imports. Our balance of payments deficit is too large and needs to be reduced. We have made a start on this, with the help of faster growth abroad and a lower dollar. But we have to keep our costs down. We have to do all we can to improve and exploit our trading opportunities both at home and abroad.

Consumer spending can be expected to grow at about the rate of the economy as a whole. This will be a supporting force, especially in the early stages of the recovery. Because more resources will be needed for investment, there should be relatively slower growth of government spending on goods and services.

We must also keep fighting inflation, not only until controls come off but also in the post-control period. The target we are proposing is a steady reduction in the inflation rate to 3 1/2 per cent by 1981. There are bound to be ups and downs, as we have seen recently with food prices. But we must hold to the general thrust towards lower inflation. This means that wage increases will have to keep on slowing down. But real wages can continue to rise, if not at the extraordinary rates we have enjoyed in the past.

We absolutely must achieve the inflation targets if we are going to create the new jobs and higher output we need.

Obviously for an open country like Canada, developments in the rest of the world will be very important. To have sustained growth, and less inflation, the economies of our major trading partners must also recover, and they will have to fight their own inflation successfully.

We can do much to ensure our own recovery. But no one group in society can do it alone. Nobody can expect a free ride as Canada moves to full employment, stable prices, higher living standards and a better balance of payments. The private sector has a very important role to play in bringing on investment, in keeping prices and costs stable, in adapting to structural change, and in providing the innovation that will deliver higher efficiency and productivity. We as governments have to work together in developing the right kinds of policies.

One of the main aims of this conference is to help us develop a medium-term growth strategy. That strategy should include the big levers of fiscal and monetary policy. It should include prices and incomes policies to deal with inflation. And it should include policies to contribute to efficiency and growth in the private sector.

The broad instruments of fiscal and monetary policy should encourage a growth of demand which will accommodate the real growth we need at declining rates of inflation. This has been the objective of monetary policy during the anti-inflation program, and we believe it should be an important element in the medium-term strategy.

On the fiscal side, we believe that governments should continue to keep a close check on their expenditures, so they do not grow faster than the economy as a whole. Within this overall restraint we think priority should be given to types of spending which directly encourage economic growth and development in all parts of the country. This may mean that cuts will have to be made in other parts of our budgets. However, as long as so many people are unemployed it will be sensible policy for governments to keep on running deficits to help overcome the problem.

We must also do all we can to ensure that the targets for prices and costs are achieved. If prices rise faster than we have projected, output will rise more slowly and unemployment will remain high. When controls come off, we will have to rely on common sense and realism in the private sector. Of course, it will be important to keep on developing the most effective and acceptable means of consultation between governments and business, labour and other private sector groups. But I also think there are things we as governments must do.

The policies we follow in setting the prices which we control and the compensation of our own employees will be important, both in themselves and as examples to others. We have already made progress in discussions of our compensation policy. I expect we will get to this in detail later in this conference. Surely, the important point is that governments, which do not face the same test of profit and loss as private employers, should follow rather than lead in the setting of wages and salaries.

We have also proposed to establish a monitoring agency to keep watch on prices and costs when controls start to come off in April. This proposal was first advanced last summer when serious discussions began on when and how to lift the controls and what would be needed to help get prices down further in the post-controls period. Since then there have been many talks with many groups about this basic idea.

I continue to think that the monitoring agency could play a very useful role and I would like to outline what we now propose.



In the first place, as we have always stressed, the agency would not have any mandatory power to order or enforce rollbacks of increases in prices, wages, or professional fees.

Second, it would not have any general power to impose reporting requirements upon business firms or employers as now provided for the present Anti-Inflation Board. Rather, it would look to existing sources of data and information for the bulk of its work. Contrary to the false alarms that have been sounded, it is not our intention to add to the reporting burdens on business.

Third, its main job would be to track general trends in prices and costs when controls come off and to warn us all - governments and the public generally - if we seemed to be in serious danger of heading back into galloping inflation. It would keep a constant focus on this fundamental problem, do studies and reports for the public on the sources and causes of serious inflationary pressure, and advise on policies and programs to reduce these risks.

It would also have the power to recommend to the government that a special inquiry be conducted into a particular hike in prices, wages or other incomes which seemed to be completely unwarranted and to pose a serious threat to overall price stability. The government might then choose, or not choose, to have the agency conduct the inquiry, with such powers as necessary to do that particular job. Such a system for special inquiries would not apply to any area where a public regulatory agency already does that work. It would extend, however, to any other area of the federal government's own operations. We would also invite the provinces to opt in to this system, but specify that any such special inquiry would only be authorized with the agreement of the province concerned.

Finally, we think that it would be very helpful to ask the agency to play an important research, educational and promotion role in raising productivity in Canada. This is not a new idea or venture. It has been

tried before. But the whole area is of fundamental importance to better cost and price performance, and thus to employment growth. It's time to address it in a more formal way on a national scale.

I hope we might have the support of all the provinces in this approach. If we cannot bring the full force of an informed public opinion to work against persistent and strong price and cost pressures, we are not likely to succeed in the battle against either inflation or unemployment.

Let me turn now to the question of the structural policies and programs needed now to bring about faster growth and more jobs. In the discussions of the past two months, we've been talking about the need for structural change and improvement in the national and regional economies, and what policies and programs can help to bring this about. These so-called framework and sector policies comprise most of the agenda of the conference. Their broad objectives must be to reduce the barriers to growth, improve the business and investment climate, and make the Canadian economy more flexible, competitive and efficient. That is the path to reduced inflation and more jobs.

The labour market is one key area of structural policy. We have to do more to match people with jobs if we are going to keep the rate of inflation coming down as the rate of unemployment falls.

We have to ask ourselves whether our system of education and manpower training is well suited to our economic needs. Our young people are understandably fed up when they spend many years of hard work at university and then find that they are not able to use their knowledge. On the other hand, we find ourselves looking abroad for people with industrial skills, even with 8 1/2 per cent unemployment.

We need better vocational counselling in the schools, bridges to work such as co-operative education and massive improvement in labour market information.

These are matters which fall under the jurisdiction of the provinces. The federal government is prepared to help where it can. My colleague, the Minister of Employment and Immigration, has been discussing our manpower training programs with his provincial colleagues. These programs have tended in some cases to become a disguised form of income transfer. We want to get them back to their original purpose of helping Canadian workers find good jobs.

Then there is the question of labour mobility. In the dynamic and competitive world of the next few years, people are going to have to move between industries and regions. If there are barriers in their way, we will be left with hard-core pools of unemployment. Such barriers should be removed.

Finally, we have to look at our whole system of unemployment insurance and welfare, and keep on asking ourselves whether they leave enough incentive for people to take the jobs which are available, even if they are not exactly the kinds of jobs which are desired. The unemployment insurance program has been tightened up, and amended to allow for the developmental use of program funds in such areas as training, work sharing and job creation. But as the rate of unemployment falls, it will become more and more important to make sure that job vacancies get filled.

As for other structural policies, my provincial colleagues and myself discussed a number of issues at our conference three weeks ago. A résumé of our discussion and conclusions, taking note of dissenting views, has been made available. I think it fair to say that that résumé represents a general view of the broad directions needed in our economic policies, although there remain differences of view on some of the specifics. Nevertheless I think I can report on the following points as commanding the support of myself and most of my provincial colleagues. Without in any way presuming to prejudge the discussions of this conference we felt that the following points deserved priority attention:



- Continued efforts to develop a stronger and more competitive industrial structure, including participation in the trade negotiations, but with due regard for traditional industries and regional balance.
- Adequate adjustment programs for industries affected by the trade negotiations.
- The development of mechanisms for industrial rationalization, mergers and modernization in particular sectors.
- Welcoming foreign investment wherever consistent with cultural objectives and of significant benefit to the national or regional economies.
- Specific efforts in both private and public purchasing to promote import replacement.
- Continued support and innovation in programs for regional development.
- The maintenance of an effective internationally competitive system of corporation taxes and investment incentives.
- Reducing and simplifying the burden of government regulation on the productive private sector.
- Programs to reduce our large tourist deficit.
- Acceleration of private and public energy projects.

These are only some of the things we have to look at during this conference and in the months ahead.

I think we can find important areas of agreement. I think we are all coming into this with open minds, and that we all want the work of the next three days to lead to practical and effective action.



Federal-Provincial Conference of Ministers of Finance

January 26-27, 1978

Resumé of Discussion and Conclusions

1. The federal and provincial Ministers of Finance met in Ottawa, January 26-27, to examine the current and medium-term setting of economic and financial policy, with particular reference to the outlook for fiscal 1978-79 and a technical study of economic and fiscal projections and targets for the medium-term period to 1981-82.

2. There was a unanimous view that the resolution of the major problems of unacceptably high rates of unemployment and inflation, and lagging national and regional growth, called for the closest federal-provincial co-operation in broad economic policy and in the adoption of early and specific initiatives. Continuing close consultation with the private sector would also be essential in both areas.

3. Given the need to reduce inflation further as an essential condition for a sustained increase in job creation and real income, there was substantial support for maintaining current restraint in the growth of public spending by all levels of government. The majority view was that the rate of increase in public expenditure should be held below the trend rate of growth in the gross national product; two provinces, however, felt that a combination of increased spending and/or tax reductions might be appropriate to their immediate particular circumstances. It was generally recognized, moreover, that the current and prospective unemployment problem warranted such stimulatory fiscal policy as was judged financially sound, and as would be consistent with maintaining general confidence in government debt management policies and with the progressive diminution of deficits as unemployment is reduced.

4. A particularly important aspect of restraint in public spending is the level and rates of increase in wages, salaries and other forms of compensation for public and para-public employees. The view was that the concept of total compensation, as distinct from rates of pay only, is a valid one and that the public sector should not lead or be a pace-setter for the private sector. Further, it was recognized that particularly difficult budgetary and financial circumstances facing some governments would impose additional constraints on compensation settlements.



5. The ministers also confirmed the importance of their annual economic and fiscal policy conference. It was agreed that an effort should be made to hold this annual meeting before the Christmas period each year to facilitate fiscal decision-making. A majority further agreed that it would be useful to explore the possibility of the conference each year establishing a guideline range for compensation in the public sector for the following period, taking into account the principle of comparability with the private sector and trends in inflation. Alternatives to this procedure might also be explored.

6. While affirming majority support for the research and educational role of the proposed monitoring agency with regard to developments in price and incomes for a limited period after the ending of mandatory controls, provincial ministers were concerned over the application of monitoring to the public sector or to areas not subject to surveillance under the Anti-Inflation Act. It was noted that public institutions levying charges or fees upon users almost invariably are also significantly dependent for support from general tax revenues. Further, the dominant pattern in public business enterprises is to operate at or below cost, with minimal or negative rates of return on invested capital. In relatively rare exceptions, pricing policy essentially represents a special form of public taxation which would not, in any event, be reviewable by the proposed agency. Moreover, to the extent that compensation for public employees follows the concepts and principles outlined in paragraph 4 above, it would not be expected that monitoring would be required. Concern was also expressed as to the potential scope, powers and duties of the agency, and it was clearly affirmed that the agency would not have any mandatory or direct powers of intervention. It was agreed that the issue of monitoring of prices and incomes should be referred to First Ministers.

7. Ministers agreed that the necessary expansion of employment and a sound balance of payments situation over the medium-term would depend crucially upon sustained improvement in Canada's international competitive position and a significant growth in private sector investment. A majority also felt that specific structural policies could help directly both to expand exports and to replace imports with goods and services from domestic sources. Specific co-operative federal-provincial initiatives should therefore be taken along the following lines,

in close consultation with the private sector:

(a) Continued effort to develop a stronger and more competitive industrial structure, including participation in the current multi-lateral trade negotiations, but with due regard for traditional industries and regional balance.

(b) National leadership to formulate adequate adjustment programs for industries affected by the trade negotiations, to be implemented with the co-operation and support of the provinces.

(c) Special effort to develop mechanisms for industrial rationalization, restructuring and modernization in particular sectors, as required to improve competitive scale and effectiveness in both export and domestic markets.

(d) Affirmation of the importance and the welcome to be accorded to foreign investment, wherever consistent with cultural objectives and the existing test of significant benefit to the national or regional economies.

(e) Special efforts in both private and public purchasing to promote import replacement wherever domestically produced goods or services are competitive as to price and quality.

(f) Continued support, review and innovation in programs for regional development, keyed to the immediate and longer-run economic development potential of each province and region.

(g) A commitment to maintain an internationally competitive position with regard to the net impact of corporation taxes and investment incentives, recognizing however that resource rents available might warrant special revenue levies related to provincial ownership of resources.

(h) A special and urgent inquiry be undertaken to determine specific steps that might be taken to reduce and simplify the over-all burden of regulation imposed by all levels of government on the productive private sector.

(i) Particular programs to stimulate the domestic tourist industry and reduce the large international deficit on travel account.

(j) Acceleration to the extent practical and economically sound of private and public energy investment programs.

(The Minister of Finance for British Columbia has indicated a dissent from the particular wording of sub-clauses (a), (b), (e), (f), (i) and (j). The Minister for Saskatchewan has indicated dissent from the wording of clauses (d), (g) and (h).)

8. A majority of ministers agreed that this resumé of conclusions should be reported to the First Ministers' Conference as reflecting their substantial consensus, but not completely detailed agreement, as to the direction of broad economic policy and the specific measures deserving priority attention.





NOTES FOR REMARKS ON  
ECONOMIC OUTLOOK AND OBJECTIVES

BY

THE HONOURABLE WILLIAM G. DAVIS

PREMIER OF ONTARIO

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AUG 30 1978

Faculty of Management Studies  
University of Toronto

TO

THE CONFERENCE OF FIRST MINISTERS

OTTAWA

MONDAY, FEBRUARY 13, 1978



- Process of consultation is critical to the stability of Confederation, and I welcome this opportunity to focus our collective and constructive attention on our most demanding national problem -- the economy. The acceptance by the federal government of its leadership and responsibility in this area is encouraging.
- Ministers of Finance, in reaching broad agreement on economic targets, have laid a good foundation for First Ministers to build on.
- Economic targets are, however, only a beginning and must be supported by specific federal policies and programs which will best achieve the end results we agree upon.
- It is my view that the priority for government action is the achievement of better economic growth and the creation of long-term, productive employment. That is what this Conference is about.
- I am therefore tabling, this morning, Ontario's proposals for a national economic policy over the next few years entitled: An Economic Development Policy for Canada.
- A pre-requisite to securing our common economic objectives is nothing less than the adoption, now, of a completely fresh attitude of cooperation and continuous consultation among the First Ministers of this country. We need an improved means for presenting economic issues and considering policy alternatives.
- As an example, the intergovernmental resource taxation disputes of the mid-1970's cost Canada many jobs and almost wrecked the confidence of the international investment community in the economic stability of the country. Canadian investors were equally distressed by that conflict.



- I hope that better consultative processes can be devised to allow us all to be more reasonable with one another if conflicts of that kind ever arise again. The country suffers immense damage from such breakdowns in intergovernmental cooperation.
- I am proposing a National Council on the Economy, composed of Finance Ministers and representatives of labour, business and other groups in the private sector, who would report to First Ministers. This proposal is contained in our document, An Economic Development Policy for Canada. I shall have more to say about this matter on Wednesday when we discuss the specific issue of future consultative arrangements.
- While we shall be concentrating our efforts in this Conference towards the resolution of economic problems of the medium term, we cannot ignore the fact that almost one million Canadians are today without jobs. I am, therefore, tabling a ten-point program entitled Immediate Actions for Job Creation which I advance for the consideration of this Conference:
  1. Adopt a national "Make-a-Job: Buy Canadian" promotion program.
  2. Use to better advantage the \$1.3 billion in annual unemployment insurance benefits paid to young people, so as to create jobs for them and lasting social gain for the country. In Ontario alone, these benefits paid to young people amount to \$400 million a year.
  3. Implement a joint federal-provincial tax credit incentive designed to expand jobs in research, design and development activities in Canadian industry.
  4. Act now at the federal level to remove any impediments to the acceleration of energy investment projects across Canada, particularly those in the private sector.

5. Negotiate with major auto companies for a fair share for Canada of the massive investment program they will be undertaking to reach new fuel economy and pollution control standards.
  6. Open up a line of credit to CN/CP to expand investment in railway roadbed, track, signal equipment and grade crossings, especially in the Quebec-Windsor corridor.
  7. Move quickly to take advantage of the new 200-mile limit to create attractive incentives for private sector investment in the fishing industry. New construction orders are needed in shipyards across Canada, including those in Ontario.
  8. Take advantage of the growing demand for large freighters on the Upper Great Lakes by encouraging the expansion of Canada's fresh water shipbuilding and repair industries through the provision of large scale drydock facilities.
  9. Shelve the proposed competition legislation for at least five years to improve business confidence and create a climate within which industrial restructuring can take place.
  10. Continue to give priority to the improvement of federal manpower programs so that employers and employees can receive the benefits of more efficient services.
- These kinds of initiatives would redirect public sector resources into the creation of productive jobs. They would minimize the need for public expenditures, and maximize the involvement of the private sector.
  - Public sector fiscal policies have made the tax system very expansionary. Our estimate is that, given no changes in government programs, at full employment the federal government deficit last year would still have been over \$5 billion and Ontario's over \$750 million -- on a national accounts basis. Business and personal savings are relatively high and now is the right time to encourage private sector investment.

- The economy is beginning to respond to fiscal stimulus. Selectivity of public spending and better focusing of economic policies and programs are now required to continue the process of recovery into the longer term.
- Related to this is the matter of improving business confidence. I appreciate that the Canadian dollar had to move to a level more consistent with our industrial cost structure, but, it has been left psychologically defenceless by the federal government. This will affect the nation's ability to raise capital abroad.
- While I would not want to define exactly where the Canadian dollar should settle, it would help business confidence if the federal government were to indicate that it has decided on a natural range for the dollar, and that it is prepared to put up some defence around that range with the most appropriate policy weapons available.
- To provide a focus of our discussions at this Conference, I think we have to keep four basic principles in mind:
  - . Without a reasonable level of price stability, economic growth will falter and unemployment would remain high;
  - . Policies must reinforce private sector investment as the major source of growth in jobs and incomes;
  - . Export growth and import replacement are two of the most significant areas of opportunity for the creation of new jobs; and
  - . The regional distribution of incomes and jobs has to be continuously improved, especially through incentives to the private sector.



- If they are to be met, the federal economic goals must involve a large shift of emphasis. In my judgement, this means less job growth in the public sector and expanded opportunities in the private sector.
- Ontario's views on how this can be accomplished are contained in our document An Economic Development Policy for Canada.
- In outline, our medium-term economic policy calls for:
  - . an agreed program of national fiscal restraint in which public sector growth is held to a rate less than that of Gross National Product;
  - . an implicit national incomes policy in which First Ministers, guided by our Finance Ministers, each year provide an indication of the anticipated growth in the economy, the policies needed to maintain growth, and the capacity of the economy to absorb increases in personal and business incomes;
  - . actions to improve the business climate, particularly the regulatory environment, and commitments from governments which provide greater certainty, and competitiveness, in the tax environment;
  - . programs and policies to expand jobs and incomes through increased exports and import replacement, especially in manufactured products and in resource upgrading. There are particular opportunities to be exploited in autos, petrochemicals, and machinery and equipment; and
  - . programs to restructure, modernize and rationalize our industries before the GATT changes take full effect.
- I will speak further to certain aspects of these issues as our discussions proceed, and particularly tomorrow when we discuss commercial policy.



Federal-Provincial  
Conference of First Ministers  
Ottawa  
February 13-15, 1978

IMMEDIATE ACTIONS  
FOR  
JOB CREATION

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Presented by the  
Honourable William G. Davis  
Premier of Ontario





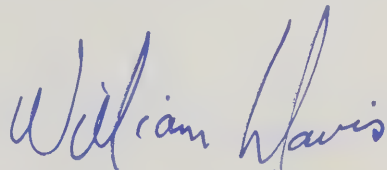
## FOREWORD

There is little argument that governments must assume a significant share of the responsibility for the creation of conditions which lead to full employment and price stability. The world economic situation, and the competing and often conflicting demands we all make on Confederation have turned this responsibility into a particularly complex but vital task of the 1970's.

This document outlines ten specific proposals which the Ontario Government believes will make an early contribution to regaining the momentum of economic growth in Canada. These are measures which are designed to expand the private sector, create jobs and ensure growth with minimum public sector outlays.

I am particularly concerned that young people in Ontario and other parts of Canada should not suffer the burden of an uncertain economic climate. Today, close to half of the unemployed in Canada are young people. It is my firm belief that with proper policies and bold actions, we can offer them a secure future with good prospects of jobs and rising incomes, so that they, too, may enjoy the many benefits of this great country and contribute to the maintenance of its prosperity.

It is in this spirit that the Government of Ontario advances this national ten-point program for immediate job creation.

A handwritten signature in blue ink, reading "William G. Davis". The signature is fluid and cursive, with the first name "William" and last name "Davis" clearly distinguishable.

William G. Davis  
Premier of Ontario

## TEN JOB ACTIONS

- . "MAKE A JOB - BUY CANADIAN"
- . JOB CREATION FOR YOUTH
- . INNOVATION IN CANADIAN INDUSTRY
- . ACCELERATED INVESTMENT IN ENERGY PROJECTS
- . JOB POTENTIAL IN THE AUTOMOTIVE INDUSTRY
- . IMPROVED RAIL FACILITIES
- . INVESTMENT IN THE FISHING INDUSTRY
- . EXPANDED SHIPBUILDING FACILITIES
- . REDUCING RED TAPE FOR BUSINESS
- . MORE EFFECTIVE MANPOWER SERVICES



## "MAKE A JOB - BUY CANADIAN"

### Proposal

The federal government should embark on a "Make a Job - Buy Canadian" campaign to:

- . encourage Canadian consumers to buy Canadian produced goods when quality and price are comparable to those of imports; and
- . encourage Canadian industries and governments to adopt the same program.

### Benefits

- . The current trade deficit in fully manufactured goods is about \$11 billion, representing a potential employment opportunity of 170,000 jobs.
- . Such a campaign can assist industry to rationalize so that it can compete more effectively in world markets. It will also assist in the process of building a national market.
- . Part of this program would include a "See Canada First" promotion. Reduction of the \$1.7 billion foreign travel deficit provides an opportunity to recover up to 100,000 jobs in an industry which is labour intensive.

### Means

Effective coordination of government purchasing policies will be necessary if Canadian industry is to take advantage of the widest possible domestic market.

A variety of joint public and private sector promotion efforts should be undertaken to improve the acceptability of Canadian products; one element could be a commonly identifiable symbol for Canadian produced goods.

An aggressive advertising program would increase consumer awareness of the economic impact, in terms of jobs and the balance of payments, of buying Canadian.

## JOB CREATION FOR YOUTH

### Proposal

An examination by the federal government of alternative ways to take better advantage of the \$1.3 billion in annual UIC payments made to youth, so as to create jobs of lasting economic and social benefit.

Ontario plans to increase its spending on job programs for young people from \$63 million to \$78 million in 1978.

### Benefits

- . The size of present UIC payments to youth, at \$1.3 billion, creates unusual opportunities for more aggressive experimentation in job-creating programs. If half of this amount were directed to these programs, youth unemployment could be cut by over 100,000.
- . More effective use should be made of existing labour resources and training.
- . Opportunities should also be created for new labour force entrants to gain on-the-job experience and develop marketable talents.
- . Job creation should be mainly in the private sector.

### Means

It is essential that the federal government develop a well funded and administratively simple private sector oriented program of job creation for youth to reduce unemployment.

## INNOVATION IN CANADIAN INDUSTRY

### Proposal

The federal and provincial governments should jointly provide a new performance tax credit to provide incentives for employment increases in industrial research, design and development over existing levels.

### Benefits

- . A number of sources have identified industrial technological innovation as the key factor in creating jobs and improving the performance of productivity and exports.
- . The deficiency in Canada's ratio of research and development expenditures to GNP is dramatic. Expenditures are 1.1 per cent of GNP for Canada compared with 2.4 per cent for the United States and 2.3 per cent for West Germany. Canada's gap in industrial R & D jobs could be as high as 50,000.
- . Successful innovation resulting from such a program could reduce this gap and add substantially to total manufacturing activity.

### Means

By providing a continuing 100 per cent tax credit against additional employment, the program would provide positive incentives for an expansion of R & D jobs in Canada. If this program were to generate 10,000 jobs, the annual cost would be:

	10,000 New R & D Jobs (million)
- Salaries for new R & D Jobs	\$250
- Present Tax Treatment at 33% C.I.T.	\$ 83
- Proposed Tax Treatment	<u>\$250</u>
Net Incentive to Private Sector (C.I.T. loss)	\$167
Gain in P.I.T. Collections (at 20% rate)	<u>\$ 50</u>
Net Federal-Provincial Annual Cost	\$117



## ACCELERATED INVESTMENT IN ENERGY PROJECTS

### Proposal

The federal government should act quickly to remove impediments to the acceleration of investments in the energy sector, especially private sector investments, and take full advantage of job-creating opportunities and the availability of capital and industrial capacity in Canada.

The maximum economic benefit to Canada in jobs and incomes will be obtained only if high levels of Canadian content can be ensured.

### Benefits

- . The magnitude of Canada's energy investment program is such that even modest accelerations over a few large projects would yield significant economic results. Energy investments are estimated to be \$74 billion in the five-year period 1978 to 1982, and will account for some 20.7 per cent of total private and public capital investment.
- . The following tables show the scale of some of the major projects under consideration. Employment estimates are approximate and should be taken as guides to general magnitudes. The jobs are shown in total man-years and do not represent annual jobs.

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ESTIMATED ENERGY INVESTMENTS IN  
RELATION TO TOTAL INVESTMENT  
(billions of current dollars)

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	1978	1979	1980	1981	1982	5-Year Total
Energy Investment	10.3	11.8	14.7	17.3	19.4	73.5
Total Capital Investment	53.1	60.8	70.0	80.5	90.5	354.9
Energy Investment as Per Cent of Total Investment	19.4	19.4	21.0	21.5	21.5	20.7

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Source: Canadian Imperial Bank of Commerce.

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EXAMPLES OF JOB CREATION POTENTIAL IN  
SELECTED MAJOR ENERGY PROJECTS IN CANADA

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Project	Construction Period	Total Cost (billions of current \$)	Job Creation (man years)
Foothills Pipeline	1979-82	3.8	56,600
Husky Oil Upgrading	1979-82	0.7	9,100
Imperial Oil (Cold Lake)	1979-85	3 to 4	40,000 to 53,300
Kitimat Oil Pipeline	1980-82	0.8	10,700
Lower Churchill	-	1.4	18,700
Onakawana	-	2.0	26,700
Polar Gas	-	8.5	113,300
Shell Oil (Oil Sands)	1980-85	3 to 4	40,000 to 53,300
Syncrude Expansion	-	1.0	13,300
Ontario Hydro Program	1978-81	8.6	115,000
Quebec Hydro Program	1978-81	13.0	170,000
B.C. Hydro Program	1978-81	3.6	48,000
Bay of Fundy Tidal Power	-	2 to 4	26,000 to 53,000
TOTAL		51.4 to 54.4	687,400 to 741,000

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Notes: Estimates include jobs created in construction, engineering, and supply industries. Multiplier effects are excluded.

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## JOB POTENTIAL IN THE AUTOMOTIVE INDUSTRY

### Proposal

There are four problems which have to be resolved in order for Ontario to have a viable automotive industry in the 1980's:

- . the auto industry is currently faced with a \$1 billion deficit which should be eliminated;
- . the North American auto industry has scheduled more than \$50 billion in new investment through to the mid-1980's, and Canada should receive its fair share of these expenditures;
- . the skill composition of Canadian auto industry jobs should be improved; and
- . the Canadian auto industry should receive a fair share of the research and development being undertaken by the auto companies.

### Benefits

- . Immediate employment gains of 15-20,000 jobs could be realized by the Canadian industry if the deficit could be brought into balance.
- . Also, with a fair share for Canada of the auto investment program, up to 10,000 additional jobs would be available by the early 1980's.
- . The competitiveness of the industry in terms of both higher productivity and lower costs would be enhanced.
- . There is also a potential of 2,500 jobs in the research and development area.



## IMPROVED RAIL FACILITIES

### Proposal

The current program to modernize Canada's rail facilities should be accelerated to improve the productivity and efficiency of the total system for passenger and freight. This would include setting as a major objective a high-speed (125 m.p.h.) passenger service on an exclusive track basis in the Quebec-Windsor Corridor.

### Benefits

- . Improvement of facilities across the country would result in the immediate creation of thousands of jobs and large new industrial orders in the steel rail, and signal equipment industries.
- . The Quebec-Windsor Corridor improvements would cost \$250 million, creating 1,200 jobs for five years.
- . System efficiency would be improved and opportunities would be opened up for investment in better rolling stock and for economically sound use of newer stock.

### Means

The federal government could open up a line of credit to CN/CP to permit an expansion of the present investment program.

The Ontario Government would be willing to explore a shift in some of its expenditure priorities over the next two years to join in a shift of federal government expenditure priorities into grade crossings and grade separations to complement the investment in new track.

The federal government should give serious consideration to other opportunities for CN/CP investment in new track and equipment across Canada as indicated, for example, in the Hall Report.

## INVESTMENT IN THE FISHING INDUSTRY

### Proposal

Private sector investment should be encouraged to modernize and expand Canada's fishing fleets so that they can compete more effectively with foreign trawlers and take full advantage of the economic opportunities provided by the new 200 mile limit. The new limit will also, in time, open up new opportunities in seabed exploration and mining, for which modernized shipbuilding, repair and shore facilities will be required.

### Benefits

- . Large increases in fish catch, better use of existing fish processing facilities and new investments.
- . The new fishing zone is estimated to open up potential orders for 20 or more trawlers annually from operations on the east coast and another 5-7 annually from the west coast. About 15,000 shipyard employees in Canada face enormous uncertainties about the industry's future. Ontario's shipyards need new construction orders, as do the yards in several other provinces.
- . Broad economic benefits would accrue from additional purchases of trawlers, and orders by shipyards of industrial goods and materials from all parts of Canada.

### Means

The upper limit on loan guarantees which is now \$50,000 should be increased dramatically to allow Canadian industry to move into modern sized ships. Aggressive international marketing and promotion, and concessions at the Geneva trade talks, would assist in creating the maximum number of jobs from sales of fish and fish products.

## EXPANDED SHIPBUILDING FACILITIES

### Proposal

For domestic shipyards to take advantage of the growing Canadian demand for large freighters requires the expansion of Canada's freshwater shipbuilding and ship-repair facilities. In particular, this requires the provision of large-scale dry dock facilities on the Upper Great Lakes.

### Benefits

- . Improved facilities would ensure Canada's participation in the shipbuilding and ship-repair growth potential associated with 1,000 foot vessels in the Upper Great Lakes.
- . The creation of long term jobs and the encouragement of private sector investment in the industry.



## REDUCING RED TAPE FOR BUSINESS

### Proposal

All governments should take steps to reduce red tape and simplify regulations which inhibit business activity. In particular:

- . the implementation of Phase II of the Competition Act should be delayed for at least five years;
- . there should be no major changes at this time in legislation, such as those in the proposed Bank Act and Borrowers and Depositors Protection Act, both of which affect the stability of Canada's financial institutions;
- . governments should consider submitting all major new legislative and program proposals to an economic impact test of the kind recently implemented by Ontario, so that adverse employment and economic growth consequences are fully understood.

### Benefits

- . Would avoid the uncertainty associated with the bureaucratic regulation of new areas of industrial activity.
- . Would get government out of the affairs of business and improve general business confidence in the role of government in the economy.
- . Would avoid the counter-productive interference with the process of industrial rationalization that would result from the highly discretionary bureaucratic procedure to investigate dominant firms, mergers and agreements to specialize production.
- . Would avoid duplication of regulatory activity where self-regulation, with agricultural marketing boards, for example, has demonstrated its effectiveness.

## MORE EFFECTIVE MANPOWER SERVICES

### Proposal

The Ontario Government recognizes the value of steps taken to date to improve and consolidate federal manpower services. Top priority should now be given to improving the effectiveness and efficiency of those services. These efforts should include measures to integrate provincial job creation initiatives under one roof.

### Benefits

Although it can be said that the combination of manpower, job creation and related programs now provide more comprehensive support of the unemployed than at any time in the past, the machinery in place could be made yet more effective and client responsive. Accordingly, the benefits of the proposal would be reflected in satisfying the following needs:

- . to facilitate labour force entry for young people;
- . to address the more pronounced employment needs of special groups;
- . to move labour more quickly from surplus to shortage regions within and between provinces;
- . voluntary registration of more private sector jobs;
- . to prepare for inevitable and necessary structural adjustments in the economy (GATT, industrial strategy);
- . to provide more precise intelligence on economic conditions and employment prospects (e.g., by occupation, industry, region).

## NOTES



## NOTES

## NOTES







## HIGHLIGHTS OF ONTARIO'S PAPER

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### "AN ECONOMIC DEVELOPMENT POLICY FOR CANADA"

Faculty of Management Studies  
University of Toronto

The document contains forty policy recommendations directed towards restructuring the economy in order to meet the targets for growth proposed by the federal government.

#### Foreword by Premier Davis

"The Government of Ontario believes that, with this Conference of First Ministers, there is an opportunity to begin mapping a strategy for the future growth, expansion and enrichment of our economic and social progress."

#### The Problem

Canada has entered a tough new competitive environment in which it cannot be assumed that the economy will be as responsive to world economic recovery as in the past. Major structural policy initiatives are required to restore competitiveness and redirect the focus of economic growth.

#### Medium Term Targets

The federal government's document "Medium Term Projections and Targets":

- describes a very different path from the one the economy has been following over the past five years;
- provides the targets, but not the policies, required to achieve the recovery path;
- implies a new focus on policies to promote the creation of more jobs in manufacturing; growth in manufacturing jobs is targeted to grow five times as fast as in the past five years;
- suggests employment growth in the service sector, especially public administration, will have to slow down;
- calls for stepped-up private sector investment up to 7.3% annually in real terms compared to only 5.7% growth on average in recent years;
- targets a pronounced shift towards energy, manufacturing and transportation investment as a critical component.

- projects significantly more rapid export expansion and slower import growth.

Recognizing the need for major changes in economic policy urges a new focus on policies to:

- ensure longer term price stability;
- encourage investment and improve the business climate;
- promote improved competitiveness at home and abroad; and
- deliver growth to all regions of Canada.

Moreover, it makes specific proposals on how to improve intergovernmental cooperation and develop a meaningful consultative process so that targets may be reached.

### Price Stability

The Ontario policy document makes eight recommendations designed to promote price stability when the Anti-Inflation Program ends:

- a commitment from all governments to restrain public spending;
- hold the line on civil service growth in Canada;
- the establishment of voluntary "guide-rules" for wages and prices;
- a national development strategy aimed at improving productivity;
- a regular review of the national targets by First Ministers, assisted by Finance Ministers; and
- monetary growth consistent with the economic targets.

### Improving the Business Climate and Increasing Investment

Ontario makes eleven recommendations designed to accelerate capital investment in Canada:

- priority to growth in manufacturing;
- commitments to keep the corporate tax structure internationally competitive;
- curb the expansion of government regulatory activities;

- the revisions to the Competition Act should be shelved for at least five years;
- governments must undertake a commitment to a continuing policy of fiscal restraints;
- existing government research and development programs should be replaced with a tax credit program;
- the proportion of government R & D conducted by the private sector should be increased;
- industry committees should be given the job of identifying RD & D opportunities and priorities;
- federal Enterprise Development Program (EDP) should give priority to international marketing;
- EDP should help business cut through red tape abroad and at home.

#### Improving Competitiveness at Home and Abroad

The Ontario paper makes fourteen recommendations designed to restore Canada's trade balance:

- GATT talks in Geneva must get reciprocity for all regions of Canada;
- there must be meaningful reductions in foreign non-tariff barriers which discriminate against Canadian exporters;
- Ottawa should step up its monitoring of dumping, and be prepared to act more speedily to counteract it;
- a program to reduce the \$1 billion deficit in auto trade should be a priority;
- the agricultural sector needs better access to United States markets if it is to restructure efficiently;
- the future of Canadian petrochemicals depends heavily on improved access to United States markets;
- Canada needs to explore continental integration of key, large industries where benefit can accrue to both countries;
- government coordination in purchasing policies needed where the public sector has a major impact on key Canadian industries, such as heavy electrical goods, railroad rolling stock, urban transit, pharmaceuticals;



- a "Make a Job - Buy Canadian" campaign to support domestic industry and employment more effectively;
- improved competition through deregulation, in the transportation industry to encourage the domestic tourism industry;
- special packages to smooth seasonal demand in tourism;
- redirection of government and private sector tourist promotion to markets abroad where Canadian costs are increasingly competitive;
- a competitive cost structure in the tourist industry;
- a major effort to attract more US auto travellers.

#### Improved Regional Development

The Ontario policy proposals contain five recommendations designed to ensure that all regions share in national growth:

- federal government should adopt a corporate tax rate structure that varies by region so as to provide positive incentives to the private sector in areas of low growth and high unemployment;
- government programs should focus on existing regional resources and self-sustaining regional industrial advantages;
- federal government should adopt a policy of regional flexibility in the application of environmental standards;
- DREE funding should be converted to a block funding basis; and
- DREE should put more emphasis on identifying local marketing and production opportunities.

#### A Genuine Consultative Process

Ontario also advances the position that consultation processes must be vastly improved and makes two recommendations:

- The Conference of First Ministers should serve as the focus for more sustained and regular discussions on national economic objectives and policies; and
- A National Council on the Economy consisting of the federal and provincial Ministers of Finance and representatives of business, labour and other private sector groups, should be established to advise the First Ministers on national goals and policies.



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NOTES FOR REMARKS ON

COMMERCIAL POLICY

BY

THE HONOURABLE WILLIAM G. DAVIS

PREMIER OF ONTARIO

TO THE

CONFERENCE OF FIRST MINISTERS

OTTAWA

TUESDAY, FEBRUARY 14, 1978

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- Welcome this opportunity to lead off discussion on commercial policy. Conventionally that covers foreign trade and government policies towards it. Since the early days of Confederation, Canada has used commercial policy as a development tool, through the encouragement of exports of all kinds, and the restriction, to some degree, of imports. Affects all parts of the country.
- Also affects all parts of our economy which are exposed to international competition and relies heavily on commerce with other nations.
- Therefore, essential to understand that our economy is part of the world economy, not an island.

#### MAKING THE ECONOMY COMPETITIVE

- Our economy must be internationally competitive. This calls for domestic policies which put that objective as a first priority. It limits what we can do in public spending, income redistribution and social programs. The more efficient our industries are, and the more we sell abroad, the more we can afford for social and cultural development as a nation.

- A critical aspect of this problem is the climate that governments create for business. We need to clean up the regulatory and red-tape environment--simplify the regulations, cut the red tape and eliminate duplication and overlap in the public sector.

#### TARIFF TALKS AND ASSISTANCE TO INDUSTRY

- Commercial policy and the Geneva trade and tariff negotiations are very important aspects of an economic development policy. It will be vital moreover, that Canada's negotiators achieve significant reductions in foreign non-tariff barriers which present unfair obstacles to the sale of our products in other countries.
- We do not disagree with the Government of Alberta's objective of increasing its exports to the United States. We share the same ambition. What I would like to be assured of is the federal government's desire to negotiate a trade package including the United States, which obtains trade concessions for all regions of the country.
- Our experience with the Auto Pact has taught us that there are definite economic advantages to improved north-south industrial integration, but that we have to bargain hard to maintain our fair share.



- Need to be cautious in adopting sharp changes in the tariff environment. Businessmen and employees do not set the foreign trade rules and they invest their money and direct their concerns with some measure of trust in governments.
- Governments, therefore, have an obligation to be fair and must be prepared to assist business and labour when they suffer injury as a result of changes in policy.
- The results of the Geneva trade negotiations will present new business opportunities for some and costs for others. Adjustment assistance policies should be laid out now which clearly show how the federal government intends to deal with both these aspects.
- The climate for investment and labour relations requires such policies as a reaffirmation of the government's good faith during a period of economic uncertainty.
- Those adjustment policies should cover at least the following elements:
  - assistance in modernizing plant and equipment;
  - assistance in restructuring industries through mergers, company reorganizations, production sharing arrangements, and joint marketing of products;

- assistance in expanding marketing operations, especially overseas;
  - assistance in retraining employees and expanding the skill base of our industries.
- 
- Adjustment policies to cope with the impending tariff changes are an elementary requirement, and policies to modernize our industrial structure go along with that.
- 
- Therefore, before Canada moves much further into the trade negotiations, we have to put in place a complete program to ensure that our industries are up to world standards. Many are too small, too fragmented and too high cost to survive without protection.
- 
- Without a policy with precise objectives, this becomes a question of balancing interests: jobs versus lower consumer prices and import costs.
- 
- However, with the proper policies, I think we can have both. But, it can only be done if we move now, with a sense of urgency.

#### MODERNIZING OUR INDUSTRIES

- Consultation with industry and labour through a structure of industrial committees will be an

important part of this process, but we should set those committees tight deadlines.

- We should also provide them with some notion of the direction we want them to take, and an indication of the supportive actions government will launch to restructure and modernize our industries.
- In some industries, such as automobiles, we have already undertaken massive studies. The need now is for an action program, not more studies.
- In forest products, there are special problems of effective resource management, pollution control and productivity improvement which would, if solved, create new jobs. We see this as a \$2 billion potential investment program in our province, and, no doubt, similar opportunities exist elsewhere across Canada. I think the federal government should recognize this as a good opportunity with the right incentives, to create new private sector jobs and incomes.
- We should recognize that, despite the many economic advantages of large scale, many small businesses are equally as efficient. I want to see us adopt policies which preserve and expand the pool of commercial and technical talent that flourishes in our small business community.



- Restructuring of the economy will be a difficult period of transition. A major program of industrial modernization will present large financing problems. I would not want governments to have to underwrite this extensive effort with direct financing programs.
  
- What we need are incentives to mobilize a dramatic increase in the use of equity financing in Canada so that all Canadians may share in this program. The low level of equity growth has been for too long a roadblock to growth, particularly for small and medium sized firms.

INHIBITIONS AND OPPORTUNITIES  
IN INDUSTRIAL PROGRESS

- The proposed changes to the Competition Act would inhibit necessary industrial reorganization and should be shelved so as to improve the consultative climate within industry.
  
- We should be encouraging mergers and production sharing arrangements, where necessary, to raise Canadian industrial efficiency to world levels.
  
- If economic policies are set to aim at the right opportunities, the job potential is enormous.



The eleven billion dollar deficit on manufactured goods alone represents tens of thousands of new jobs--if we can build the industrial base to capture those domestic markets from foreign suppliers.

- There is no doubt that one of the healthiest economic routes to more jobs and higher incomes is through increased exports of manufactured and processed goods--that can only come about if we make it a policy priority.

#### TOURISM

- Special measures are long overdue on the tourist side. Our estimates show this to be a very large potential job generator across Canada. The devaluation of the Canadian dollar has seen the cost of a European vacation climb fifty per cent in five years, and yet Canada still runs a large tourist deficit with the European Community.
- Something is wrong with our ability to take advantage of this dramatic shift in prices in our favour. Our tourist trade with the United States is also in a large deficit position. We should be taking full advantage of the decline in the value of the Canadian dollar to

attract more American and European tourists and encourage Canadians to vacation in Canada.

- We would also like to see the federal government develop policies which encourage a much larger inflow of air charter business. This is where the big new tourist markets are, and, at the moment, the incentives seem to be favouring outward-bound traffic.

#### LARGE AREAS OF POTENTIAL JOB OPPORTUNITY

- The potential for big job gains in a number of areas is significant:
  1. . The foreign trade deficit on manufactured products: at about \$11 billion, offers a potential for job creation of some 170,000.
    - . Included in this total must be many thousands of new jobs which could be created from upgrading of resource and agricultural products.
    - . Action to restore a balance in auto trade alone could produce up to 15-20,000 new jobs in the near term; a further 10,000 jobs could emerge from a fair share of this industry's anticipated investment program.
  2. The foreign trade deficit on tourism amounts to \$1.7 billion, and as a labour intensive industry, contains the potential for 100,000 additional jobs if our tourism trade could be brought to balance.

3. Investment in private sector industrial research, design and development is below world competitive levels; 50,000 new jobs in this area would bring Canada up to United States standards.

4. The ALCAN pipeline is a one-time investment, but the job estimates show direct new employment of some 14,000 jobs annually when fully underway.

- While this is not an exhaustive list, the direct employment creation potential in these sectors alone could be in the region of 300,000 new private sector jobs. Depending upon the economic climate, these could create up to 300,000 other jobs from the indirect effects. There is a potential for 600,000 new jobs.
- I do not think we are likely to get all of these, but we should be trying to focus our policies on the areas where we are most likely to get the best results.

#### ENERGY AND THE ECONOMY

- The federal government's energy pricing policies have involved economic costs for the country: higher rates of inflation, a lower rate of job creation, and enormous shifts in the flow of public and private sector revenues from energy sources.

- These revenue shifts from energy consumers to governments and private producers take time to re-route into productive investments and purchases, and the economy is still adjusting to that process. As First Ministers, I think we have a responsibility to monitor and manage the economic consequences of these powerful changes in the economy.
- Nonetheless, despite these economic setbacks, I think we have to take a positive view and get on with major energy investment projects, particularly those in the private sector. We should be making full use in the increased flow of savings in our economy.

#### WHAT MUST BE DONE

- In summary, commercial policy cannot proceed in a vacuum. Must give equal weight to all those aspects of economic policy which create incomes, jobs, prosperity and national economic cohesion.
- Start with the business climate:
  - shelve the Competition Act amendments;
  - maintain an internationally competitive tax structure;



- lay out an adjustment assistance program to cope with the aftermath of the Geneva trade negotiations;
  - stabilize the price environment by restraining public sector growth and freeing up resources for private sector expansion; and
  - improve the consultative processes among government, business and labour.
- Move on to take specific actions to improve the competitive position and structure of our industries:
- rationalization and modernization measures;
  - assistance to penetrate foreign markets and programs to displace imports; and
  - a "Make-a-Job: Buy Canadian" program;
- Finally, there is a need to restore confidence in the ability of the national economy to deliver prosperity to all regions of Canada.



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Government Regulations  
Position Paper

NOVA SCOTIA

Ottawa  
February 13-15, 1978





## NOVA SCOTIA POSITION PAPER

### GOVERNMENT REGULATIONS

Those who talk about invigorating the economy often start from the view that the main need is for government to get out of the way. One can understand the frustrations and the feelings which lead to that opinion. Yet the obvious fact is that there is not going to be any great contraction of the role of government. Clearly, big government is the consequence of economic growth. It is technology that has made our society so much more complex and all our lives so interdependent, with the result that we can avoid making life intolerable for each other only if much more of what we do is regulated. In other words, the restraints that irritate us all at times are largely the unavoidable price of complexity and congestion; if we didn't have government to curse, we would have reason to curse our neighbours and our competitors much more.

However, having made that simplistic but fundamental defense of the increasing role of government, it must be said that governments have behaved badly. Unfortunately, governments in Canada have made things for business more difficult than they need be.

While the increased role of government is necessary, governments generally have proved themselves extremely insensitive to the degree of uncertainty that is created for business by delay and indecision and by changes in regulations, taxes, etc. The problem of government for the businessman is that he often has difficulty in determining what the rules of the game currently are and he rarely knows whether the rules this year will hold next year. This is particularly hard on the small businessman.\*

This is an uncertain world anyway. The fault of government is to add, in some cases enormously, to the uncertainty. It seems that the accumulation of this experience has been a

significant cause of the slowing of business investment decisions that we have experienced in recent years. Decision-makers have had their fingers burned often enough, by government as they see it, to have become considerably more inclined to keep their hands in their pockets.

It seems a long time since the legal instruments by which government affected business were mostly statutes, passed after lengthy parliamentary debate. Increasing complexity and congestion made it necessary that many kinds of statutes are now little more than legal frameworks for making regulations, by Order-in-Council. Not too long ago people were worried about the erosion of liberty and representative government through such delegated legislation. Now it has gone much further. Many regulations in turn have become little more than legal frameworks on to which officials hang administrative rulings, which do not require even the degree of formality and representational involvement of an Order-in-Council. More and more, it is a purely bureaucratic ruling, easily changed, that determines the impact of government on many business matters.

Legislation, in Parliament and also in the Legislatures, should have regulations spelled out in detail as much as possible; in effect, administrative rulings would have to be formalized by Order-in-Council. Secondly, it is suggested that all regulations and amendments must be published wherever possible for a period such as twenty working days, before they have legal effect.

This is not, of course, a detailed proposal. Its purpose is simply to go into enough detail to show that the governments of Canada have made it too easy to change the rules affecting business; that other decision-makers, private and public, are entitled to more consideration; and that it would be possible to construct a legal framework within which changing the rules became a more solemn and challengeable process, without thereby detracting from the basic principle of sovereignty.

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Towards an  
Economic Strategy  
for Canada

The  
British Columbia  
Position

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Faculty of Management Studies  
University of Toronto

Premier William R. Bennett  
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PART ONE:  
INTRODUCTION AND PROPOSALS





## **I. INTRODUCTION**

### **A. The Problem**

Canada's economy is in serious trouble. The symptoms are there for all to see:

- High unemployment.
- High levels of inflation.
- Poor domestic investment performance.
- Movement abroad of Canadian investment.
- Stagnant consumer spending.
- Declining competitiveness in international markets.
- Poor labour/management relations.

While the symptoms appear in sharp profile today, it would be a mistake to assume that the causes are either simple or recent. It would be equally wrong to assume that solutions will be quick or easy. The fact is that Canada's poor economic performance today is in large measure the result of many years of ad hoc policy building that has led to serious and deep-rooted structural weaknesses. Such fundamental weaknesses cannot be corrected by band-aid treatment—they require major surgery.

### **B. The Causes**

Canada is a relatively sparsely populated, sprawling country comprised of regions displaying different kinds and levels of economic opportunity. The domestic market is too small and widely scattered to enable many of the industries serving it to operate at efficient levels and to grow at satisfactory rates as technology advances. Yet the matrix of Canada's economic policies has made Canada non-competitive in world markets and has substantially raised the costs borne by Canadian consumers and taxpayers. Some of these policies are enumerated below.

#### **1. Government Spending**

Over the past few years governments have substantially increased the share they have taken of income generated in Canada. Much of this income has been redistributed in the form of cash transfers: to individuals (welfare, family allowances, C.P.P., unemployment insurance); to individuals in the form of services (health care, education); to other governments; and to business (subsidies and capital assistance). Because many people perceive government services to be essentially "free", and because many mechanisms for transferring income effectively hide what is taking place, governments have not been held sufficiently accountable for their actions. Substantial direct transfers to private business (one of the fastest growing areas of government spending) have gone to industries that are inefficient or poorly located, resulting in a serious short-fall in Canada's potential industrial performance.

A second major concern is the cost of operating the government bureaucracy itself. In some cases the pay of public employees, instead of lagging behind or keeping pace with pay in the private sector, has in recent years grown faster. This may well have had an upward pull on compensation in the rest of the economy.

The excesses of governments—the rapid growth of transfers and other spending, escalation of public sector compensation, misallocation of wealth and of economic resources—have had a number of adverse effects. The most serious has been the fueling of inflation and the dampening of investment initiatives in the private sector.

## **2. Economic Stabilization**

Central governments have for years attempted to dampen economic fluctuations by means of fiscal and monetary policy. Sound stabilization policies in Canada are particularly important because of the relatively severe economic cycles experienced in this country.

Examination of the application of stabilization policies in Canada suggests, however, that those applied in recent years have not always been sufficiently well-timed or well conceived. Further examination also suggests that the provinces, because they now control an increased proportion of government expenditures and because of the inherent regional nature of the Canadian economy, must be directly involved in the stabilization process.

## **3. Industrial Policies**

Industrial policy in Canada has concentrated on narrow and *short-term measures* for individual sectors without the guidance of an overriding set of national economic objectives. The result has been a series of attempts to find means (often financial support or tariff protection) to keep every industry alive, regardless of the cost. There has been no attempt to apply the test of economic efficiency and international competitiveness to rationalize Canada's industrial base toward what we can do best. Industrial policy, as it has evolved in this ad hoc sectoral approach, has seen governments become ever more involved in attempting to alter natural market forces by means of grants and various other incentives.

The results have been widely recognized: a weak and vulnerable industrial structure, often characterized by high costs and frequent cross-subsidization of the less efficient by the more efficient industries, and a general decline in international competitiveness in all sectors. Industrial policies have created at least as many problems as solutions, and all Canadians have paid heavily for them.

## **4. Economic Climate**

As Canada has gone from boom to bust in seemingly inevitable economic cycles, and as policy after policy has emerged, unrelated to each other and often counter-acting earlier policies, business, labour, and the people of Canada generally have lost confidence in government's ability to manage the economy. The result has been for each group to look after itself—for labour to seek the maximum wage package and for business to maximize short term profits and retard investment. These parallel actions have contributed significantly to the present high inflation, high unemployment dilemma Canada faces.

## **C. The Solution**

If, as suggested, Canada's economic problems are deep-rooted, structural in nature, and represent the result of many years of ad hoc policy making, the solution will not be found in a series of cosmetic short term measures. Such measures run

the danger of simply adding to Canada's fundamental economic problems rather than providing a real cure.

The solution must come from a well-thought out economic strategy that deals with the fundamentals of structural change. It must be implemented over the mid to long term so as not to create excessive dislocations in a currently troubled economy. It should have as its objective a lasting reduction in unemployment, the opportunity for sustained growth in real per capita income for all Canadians, and the rationalization of Canada's economic base to ensure achievement of regional potential. Efficient and economically viable industry must be encouraged while those industries which are inefficient and cannot exist without continued support or protection should be phased out.

#### **D. The Results**

A serious commitment by all governments to a mid to long term national economic strategy would have a number of positive and beneficial results. Specifically, the application of a co-ordinated and sustained strategy would:

- Lead to a gradual lessening of inflation.
- Provide a higher rate of stable, long term job creation.
- Reduce unemployment.
- Sustain continued improvement in real per capita income.
- Stimulate investor confidence.
- Restore consumer confidence.
- Improve Canada's competitive position in export markets.

A set of policies to achieve these ends are capsulized in the following section.



## II. SUMMARY OF POLICY PROPOSALS

This section provides a summary of British Columbia's proposals for economic policy reform in Canada. The proposals are designed to provide a guiding framework against which specific policies can be developed and refined through a period of consultation and implementation among governments. Each policy proposal is elaborated further in the relevant section of Part II: Developing a Strategy.

### A. Government Spending Practices

#### Expenditure Growth

Growth of government has occurred too quickly and without adequate appreciation of its implications. Neither Canadian taxpayers, nor the economy itself, can continue to support the rapid growth of the public sector or the continuation of unnecessary or inefficient programs.

- For a period of three years all governments should restrain spending growth to a rate at least 1 percentage point below the growth rate in the economy (rate of growth of gross domestic product for the federal government, and rate of growth of gross provincial domestic product for each province).

By way of example, if provincial economic growth ran at 10 per cent unadjusted for inflation then government spending would grow at not more than 9 per cent unadjusted for inflation.

- Because of the severe adjustment problems that might be encountered in a slow-growth region, no provincial government would be required to reduce the rate of spending growth below two per cent plus the Canadian rate of inflation.

It is expected that application of such restraint would not only halt the growth of government's share in the economy but would represent a significant reversal of the historical trend. For example, application of the guideline should bring government spending down to the equivalent of about 40 per cent of GNP by the end of 1980. If government spending growth were to continue at rates similar to the past 10 years, however, government spending could exceed 45 per cent of GNP by 1980.

- During the three years of restraint, governments should adopt a number of procedures to increase expenditure efficiency and improve the lines of accountability they face when seeking to increase or maintain spending levels. Unnecessary and inefficiently provided services would then be withdrawn. Examples of methods to increase expenditure efficiency might include:
  - Increased use of budgeting practices such as zero-based budgeting;
  - Use of "sunset clauses" in legislation dealing with spending programs; this would force periodic review of such programs as well as a demonstration of their worth as a condition for continuation beyond a specified time period.

Once government expenditure efficiency has been improved and adequate lines of fiscal accountability are established there may be no further need for formal expenditure restraints. The public will then be in a better position to balance their demands for government services against the full costs of provision.



## **Growth of Government Revenues**

Governments frequently employ methods of taxation which generate revenue growth faster than the rate of growth in the economy. This hidden form of tax increase allows public sector spending to increase more rapidly than the rate of growth in the economy, eliminating the necessity of a formal tax rate increase which the public might not welcome.

- Tax systems which yield a trend of revenue growth in excess of the rate of economic growth should be amended to bring overall revenue growth into line with the trend rate of growth in the economy. In particular:
  - Full indexing of personal income taxes should be retained;
  - Permanent changes should be implemented to ensure that corporate income is assessed on the basis of profits adjusted to allow for inflation.

## **Shared Cost Programs**

- The trend away from shared cost programs established by the recent changes in federal-provincial fiscal arrangements should be continued. Further return of tax room to the provinces should replace shared cost programs and, to the extent possible, there should be adherence to the principle that the government providing the service should collect the tax revenues required.

## **Income Support Policies**

The present system of transfer payments, social security programs and subsidies for individuals should be streamlined and restructured to ensure that transfers are delivered to individuals most in need while maintaining a significant incentive for employable persons to seek and to hold work:

- Federal/provincial income support programs for those unable to provide for themselves should be revised so as to:
  - Permit the beneficiaries to retain some income from employment, thereby maintaining a work incentive;
  - Eliminate overlap by consolidating programs, such as housing subsidies, into cash transfers to needy persons.
- Universal programs should be more effectively targeted to ensure that benefits go to those persons most in need.
- Unemployment insurance should be restructured to emphasize temporary income maintenance in the event of involuntary unemployment. The objective of this revision would be to reduce such problems as:
  - Payment of full benefits to workers who expect to be unemployed on a regular seasonal basis;
  - Payment to secondary wage earners in relatively high income families;
  - Disincentives to movement of labour out of areas of high unemployment.
- Income supplementation for low income working people should be provided through an earned income tax credit designed to maintain work incentives. Savings from tightened U.I.C., more effective targeting of universal programs, and abolition of programs such as housing subsidies could be channelled into an earned income supplement delivered through the tax system.

## **Public Sector Compensation**

In the past, governments have tended to act as "model employers", frequently taking the lead in establishing liberal compensation patterns for public sector employees. This practice has contributed to growth in government spending and has created problems in the private sector.

- Compensation patterns for public servants should reflect patterns set in the private sector. Governments should not lead employee compensation by setting more generous compensation standards.

## **Competition Among Governments**

Tax and expenditure measures used by governments to persuade industry to locate in one region or jurisdiction rather than another have contributed both to the poor overall performance of the economy and to the growth of government.

- Governments should make a firm commitment to reduce this kind of competition.

## **B. Government Policies to Stabilize the Economy**

While governments can, and should, take some responsibility for insulating the economy from the ups and down of national and international business conditions, determination of when, how and how much to stimulate or retard the economy is often difficult. Stagflation (i.e., the existence of high inflation rates at the same time as high unemployment rates) has made the matter even more difficult and has underscored the limits to which governments can spend the economy back to recovery.

### **Automatic Fiscal Stabilizers**

- In view of the difficulties with timing and implementing active tax/spending policies there should be increased reliance on automatic stabilizers to contain fluctuations in the economy.
- Because automatic stabilizers include programs such as unemployment insurance, social assistance, and the progressive income tax, some of the recommendations made elsewhere in this document may alter the way in which automatic stabilizers work.

### **Active Fiscal Stimulation**

In addition to problems of timing and implementation of stimulative fiscal measures, there has been a tendency for governments to fund new ongoing programs not appropriate for fiscal stimulation. Such programs have proven costly and are removed very slowly, if at all, after the economy picks up.

- Fiscal stimulation should be applied with caution in order to avoid overstimulation and the fueling of inflationary pressures as the economy moves into an upturn.
- Methods of fiscal stimulation should be flexible, easy to implement, easily reversed or even self-liquidating, and have low administrative costs. Tax instruments best fit this description and should be the principal tool. Changes in general tax levels should be used in preference to altering the tax base.

- Where government expenditures are used for stimulation, emphasis should be placed on accelerating or decelerating planned capital expenditures rather than funding new programs. The provinces may have a more active role in fiscal policy in this regard.

### **Deficits and Surpluses**

There has been much public discussion and concern with government deficits in Canada. Most of these concerns are dealt with by the recommendations on government spending and monetary policy. Even with a reformed, less ambitious fiscal policy, however, it will be necessary for governments to run deficits in slow-growth years—but these must be balanced by offsetting surpluses. Specifically:

- Governments should, over a five-year period, plan to balance deficits incurred in some years against surpluses in other years.
- Governments should develop and publish five-year budget plans indicating planned approaches to matching deficits and surpluses over that period.

### **Monetary Policy**

Monetary policies (alterations in money supply and interest rates) have powerful but complex impacts on the economy. Because of the acute difficulties associated with using monetary policy as an instrument of short term economic management, the emphasis should be on longer term price stability. Specifically, the money supply, appropriately defined, should be allowed to grow at an annual rate that allows for the real growth of the economy but reduces the rate of inflation.

- The Bank of Canada's current monetary policy, which is largely in harmony with this view, should be supported.
- The definition of the money supply, and the methods the Bank of Canada uses to control it, should be the subject of research and review.

### **Exchange Rate Policy**

- A policy of floating exchange rates should be continued.

### **Government Finance Policy**

- The federal government should not disturb the mid to long term goal of price stability by forcing the Bank of Canada to underwrite a large net financing requirement.

## **C. Government Policies for Industrial Development**

### **Trade Policy**

It has long been recognized that Canada's commercial and trade policies have nurtured an inefficient and non-competitive industrial base, particularly in secondary manufacturing.

- Canada's trade policies should be reconstructed so as to provide a full and orderly integration of Canadian industries into the international market place. In particular:



- Exceptions to tariff cuts which may emerge from the GATT negotiations should be kept to an absolute minimum;
- Maximum removal of tariff and non-tariff barriers to Canadian firms selling in foreign markets should be forcefully negotiated in return for substantive cuts in Canadian trade barriers. Particular attention should be paid to gaining opportunities for further processing of resources where Canada could have strong natural advantages;
- Bilateral discussions with various countries should be undertaken to ensure that the modest pace of trade liberalization expected from the GATT discussions does not limit efforts to achieve freer trade. In agriculture and other resource-linked sectors, it should be possible to move further, and more quickly, to reduce trade barriers by negotiating on a bilateral basis.

### **Regulatory Intervention**

Government regulation of industries in Canada is extensive and, in many cases, the costs to the economy of such regulation now exceed the benefits.

- Existing regulatory agencies, such as the Canadian Transport Commission and the Anti-Dumping Tribunal, should be reviewed to determine whether they are needed and whether their current form enables effective achievement of desired broad policy objectives.
- The scope and role of quasi-judicial tribunals should be reviewed, and the amount of policy discretion reduced over time.
- All legislation creating new regulatory practices should contain a provision for automatic expiry within ten years unless, upon thorough review, it can be demonstrated to be worthwhile.
- Governments should review the full economic impact and cost of all existing and planned regulatory measures to ensure that objectives are being met at minimum cost to the economy.
- Specific product lines or services in regulated industries should be deregulated where there is potential for effective competition from related industries.
- Steps should be taken to stress economic efficiency in the operation of Crown corporations. Where such corporations are asked to deviate from efficiency norms to pursue social objectives it would be preferable for governments to provide open and direct subsidies to offset costs.
- In all regulated industries cross subsidization (hidden subsidies to some consumers in the form of provision of uneconomic services) should be reduced.

### **Taxation of Industries**

Corporate tax structures in Canada contain numerous twists and biases designed to stimulate specific industries. Such gimmicks represent a hidden means for indirectly subsidizing industries and should be avoided.

- Federal and provincial governments should revise their tax policies to ensure balanced treatment across industries. To the extent that favoured treatment for certain firms or sectors continues to be provided, an "expenditure equivalent" should be recorded in government accounts to improve accountability and awareness of the nature of such transfers.



A major cause of taxation instability has been federal/provincial disputes over resource taxation. These disputes have involved questions of fairness or equity in the sharing of resource revenues among producing and consuming provinces.

- Governments should commit themselves to maintaining increased stability in corporate taxation. In the case of resource taxation, long term stability may require a move to world market prices combined with amendment of the equalization formula to meet the goals of both levels of government.

### **Regional Development Policies**

Regional development policies in Canada have represented a drag on the national economy and have not been effective in generating sustained development in depressed regions of the country. Policies specific to regions should emphasize help to *individuals* with severely limited employment and mobility alternatives. They should not emphasize injections of money into the general area in which such persons are concentrated:

- Regional industrial incentives should be replaced by an incentive program specifically designed to encourage firms to employ such persons. Regional employment incentives to employers should be substituted for current regional development programs and should complement the earned income supplement proposed in the income support section.
- Existing programs of the Department of Regional Economic Expansion should be allowed to expire, with joint federal/provincial programs administered by the provinces for the duration of their term. The Department of Regional Economic Expansion should be eliminated in favour of the proposed system of transfers to persons.

### **Adjustment Assistance Policy**

Implementation of some or all of the policy proposals presented in this paper will require governments to deal with economic adjustments long delayed in Canada. To facilitate and encourage these changes a program of adjustment assistance should be established. This program should be carefully integrated with manpower policies, regional employment policies, and the income support system:

- Workers who, due to age or other significant impediments to retraining and mobility, should be included in the target group for regional employment subsidies (*see above*).
- Manpower and mobility programs should be stepped up to facilitate the movement of adaptable workers into more productive avenues of employment and into regions having greater economic potential.
- As for firms, increased demands on capital markets can be anticipated during the "transitional phase". Steps should be taken, possibly through the *Bank Act* revision, to encourage a higher degree of competition among Canada's financial institutions. This will ensure that firms are able to obtain adequate financing for plant modernization and/or expansion as well as providing improved opportunities for Canadians to invest their savings in the economy.

## **D. Regional Accommodation**

Achievement of Canada's economic potential will require the formulation and implementation of policies that are sensitive to diverse regional economic conditions and policy needs. Barriers to effective accommodation of regional interests have been identified in the areas of economic research and information gathering, federal/provincial consultation and in federal decision-making bodies.

### **Federal/Provincial Consultative Forums**

Numerous forums now exist for federal/provincial consultation on economic policy matters of mutual concern. The effectiveness of these could be improved by ensuring that:

- Provincial input is taken into account on matters of agenda, timing, appointment of chairperson, and frequency of meetings. Where appropriate, clear links between the various committees should be established.
- A clear and unequivocal commitment is made so that all matters where there is a possibility of overlap in constitutional jurisdiction would be the subject of early and meaningful federal/provincial consultation.

### **Economic Research**

- In order that the Economic Council of Canada might be responsive to both levels of government, it should be restructured such that reports and recommendations are subject neither to a consensus requirement nor to a veto, and its members should include provincially appointed representatives.

### **Federal Economic Policy Agencies**

- Federal regulatory agencies should be regularly reviewed by the federal/provincial meeting of ministers responsible for that issue.
- Federal regulatory agencies may in some instances need new or amended mandates to ensure that diverse regional interests are represented (e.g., the Anti-Dumping Tribunal).
- Federal regulatory agencies should facilitate provincial input at the technical level in the policy review process such as has been developed for FIRA. Other agencies may require official provincial representatives on their governing bodies (e.g., the Export Development Corporation).
- Some agencies might operate more effectively if their quasi-judicial status were removed and they were integrated into a federal department (e.g., the Tariff Board).

## **E. Strategy Implementation**

In order to ensure effective and co-operative implementation of a national economic strategy the following proposals are put forward:

- First Ministers sit semi-annually as a Council to discuss and deal with matters pertinent to implementation of reformed economic policies in Canada.
- Federal/Provincial Ministerial conferences would be continued and would set up joint working groups as required, in order to develop necessary policy proposals and/or other studies.
- First Ministers should designate one senior official as the economic policy co-ordinator for their respective governments responsible for the scheduling, co-ordination and planning of work toward policy implementation.

**PART TWO:**  
**DEVELOPING A STRATEGY**





## **I. THE CURRENT SITUATION: ITS ORIGINS**

### **A. Post-War Growth of Government**

Canada, like most other western industrial nations in the post-war period, is emerging from an era of rapid growth and high expectations. With this growth came increased public concern about such problems as the environment, the social ramifications of urbanization, and the size and growth of corporations and other organizations. With the increased wealth, however, it became possible to tackle these problems and to pursue other social goals. Governments responded by establishing a myriad of programs to protect the environment, to solve urban problems like transportation and housing, to control the power of large corporations, to redistribute wealth and opportunity to the less fortunate, and to provide the cultural and educational services held to be central to an improved quality of life.

These initiatives led to an unprecedented growth in government spending. Concern has developed that the share of government spending in the economy has grown too large and is now contributing to inflation, unemployment, and a slowdown in investment. The mirror image of the concern with government spending has been the widely held sentiment that taxes—whether borne by firms, individuals, or both—are too high and may also be detrimental to the country's economic performance.

While determination of the appropriate level of government spending must ultimately reflect a balancing of the public's demand for services with their willingness to pay, much of the recent growth of government has resulted from poor financial management practices and a lack of accountability for spending. Programs have been implemented without adequate appreciation of their costs and their economic implications in the longer term. Many established government programs have outlived their usefulness or have been delivered inefficiently. Finally, there has been duplication in programs and in their administration both within and between governments.

It is now clear that estimates of the cost of many programs were too low while expectations concerning the economy's continuing capacity to absorb such costs have been too high. A complete reappraisal of the nature and level of services provided by governments, and the most effective methods of delivering them, is now essential.

### **B. Intergovernmental Conflict**

Along with the growth of governments in Canada, there has also been a growth in intergovernmental conflict. Demands for costly public services, coupled with the fact that revenue growth has occurred on an uneven basis, has prompted disputes over federal and provincial rights to certain forms of taxation.

Conflicts over resource taxation are a case in point. Legislation and tax structures have changed rapidly as governments challenged each other with moves and countermoves to obtain natural resource revenues. This has created a serious element of uncertainty in the minds of prospective investors. Investment has been affected and, as a result, so has the capacity of the Canadian economy to generate new jobs and a high rate of productivity growth.

## **C. Regional and Industrial Policies**

Government actions to influence the economy have traditionally extended well beyond the direct measures of spending and taxation levels. Active attempts have been made to influence levels of employment, production, and income in Canada's industrial sectors for over 100 years. In fact, the basic approach to industrial policy in 1978 does not differ substantially from Sir John A. Macdonald's "National Policy" in the nineteenth century—a combination of high tariffs and asymmetrical transport rates designed to protect Canada's manufacturing sector, which was then, as it is now, situated largely in Quebec and Ontario. The current array of policies, while showing far more variety, is still founded on the same basic objective—to protect jobs by supporting noncompetitive industries and sectors.

Virtually all government policies in support of specific industries entail a hidden economic cost ultimately borne by consumers and/or taxpayers. How many Canadians, for example, are aware of the hundreds (perhaps thousands) of dollars which they pay every year in the form of higher priced goods, ranging from cars to eggs, as a result of government policies? The fact that such costs are hidden does not mean that they are insignificant; they are real and they are substantial, coming largely in the form of reduced income, purchasing power, and ultimately jobs. Because these costs are not visible, however, governments have not been called upon to justify their industrial policy measures to those expected to bear the cost.

Industrial support in Canada has been applied with little regard for order or rationality. New programs and interventions have been grafted onto the already thick and cumbersome layer of government supports and regulations. In many cases, needed industrial and labour market adjustments have been prevented by so-called "transitional" measures to support weak and declining industries, often at the expense of stronger, and more efficient, sectors.

While Canada's industrial policies have long been detrimental to the country's overall income and productivity performance, the effects were veiled during the fast growth years. Today, with slow growth and a mediocre economic performance, the need for basic policy changes has become clear.

## **D. Stagflation**

Over the last two decades, the economy has been undergoing other basic shifts and changes. In spite of rapid growth, unemployment rates have continued to rise without a slowing of inflation. The economy settled into a condition now popularly known as "stagflation"—vast amounts of productive resources standing idle while prices rise at an unacceptable pace.

Economic management policies swung from Keynesian attempts to "spend the country" out of unemployment to short doses of monetary restraint to contain inflation. While some minor successes may have been achieved, there was no basic reversal of the stagflation process.

Uncertainty and confusion in the private sector were at least equal to that in government. Industrial relations became hostile and disruptive as labour and management sought to insulate themselves from feared declines in real income. Consumers, on the other hand, found their spending plans frustrated by rapid price changes. The public at large first blamed the unions and corporations and has recently recognized that the actions of government have been, to a large degree, responsible for the current economic malaise.

The worldwide decline in economic activity from 1974 to 1976, coupled with the quadrupling of energy prices, brought the situation into even sharper focus. Governments were committed to spending programs initiated in the years of rapid growth and, as their tax revenues fell with the decline in economic activity, were faced with unprecedented deficits. With inflation proceeding unabated and with severe unemployment problems, wage and price controls were imposed in October of 1975.

While there were serious doubts concerning the value of wage and price controls, it was generally agreed that they would at least allow governments the time necessary to formulate policies for dealing with the underlying causes of inflation. These so-called "structural" policies and problems have now become the focus of attention in Canadian economic policy discussions.



## **II. PLANNING THE RECOVERY**

### **A. Need for an Economic Strategy**

To improve economic performance over the next few years Canada will have to be able to compete in foreign markets. In the face of what promises to be an era marked by only moderate demand growth and increased competition from other countries, this will require that the Canadian economy be put on a sound and efficient footing; far stronger than exists now.

This process will not be quick, nor will it be easy. The current situation reflects in large part the net effects of the application of inappropriate and ineffective policies by all governments over at least two decades. Many problems are now deeply rooted—industries and communities have grown dependent on government for continued support, inflationary pressures show no signs of abatement, unemployment continues at high levels, consumers are reluctant to spend, and investors to invest.

The solution requires that all governments act in concert to implement fundamental policy changes. An economic strategy that can be seen, grasped, and supported by individual Canadians and by all governments must guide these efforts. The time frame should be medium to long term—realistically aiming toward restoring economic health over a three-to-seven year period.

### **B. The Strategy Framework**

The Government of British Columbia takes the view that Canada's structural problems, and the solutions to them, should begin with a recognition of four factors:

- Canada's domestic markets are relatively small and geographically dispersed in comparison to most major industrial nations.

- Canada is not a single "national economy"; it is a collection of more or less unique regional economies linked together in a "common market".

- Present economic difficulties derive in large part from past government policies.

- The overlap in areas of federal and provincial interest and jurisdiction, never completely distinct, has resulted in an ongoing problem of duplication, inconsistency, and competition between governments.

From these characteristics flow an equal number of principles that are central to a national strategy:

- Full and orderly integration into the international economy is basic to Canada's employment, income, and price performance.

- Canada's economic potential can best be achieved by ensuring that each region develops up to its economic potential.

- Government economic policies should reflect the need for greater economic efficiency in the use of the nation's resources.

- It is only through the co-ordinated action of all governments that Canada's economic health can be restored.



British Columbia's proposals are based on the philosophy that a vibrant and healthy private sector is vital to Canada's economic future. Policies should be such that an impetus for renewed growth will be generated in the private sector, while the share of the nation's resources under the control of governments will be subjected, wherever possible, to the tests of economic efficiency and public accountability.

### **C. Strategy Objectives and Issues**

Before any effective or meaningful strategy can be formulated, it is necessary to identify the objectives toward which policies are to be directed. These need not be particularly precise. In fact, too much precision could lead to failure of the overall plan. Factors like world economic conditions, which are clearly beyond the control of governments in Canada, could prevent the attainment of overly specific goals, thereby destroying the credibility of an otherwise worthwhile approach to policy making.

For this reason, adherence by all governments to three general objectives is advocated:

#### **Employment/Unemployment**

- A lasting reduction of national unemployment should be a primary objective.

#### **Real Income Growth**

- Sustained growth in the per capita real incomes of Canadians should be another objective. It should be achieved by a reduced rate of inflation combined with more rapid productivity growth.

#### **Realization of Regional Economic Potential**

- Pursuit of improved levels of employment and real incomes in Canada should be accomplished by ensuring that all of Canada's regions realize their full economic potential.

All three objectives should be interpreted as medium to long term in nature, and should be pursued through policies designed to alter the underlying structure of the Canadian economy. Policies providing symptomatic relief in the near term, only to have the problems reappear in a few years in possibly exaggerated form, should be avoided. In the labour market, for example, emphasis should be placed on improving the functioning of this market as an efficient allocator of Canada's manpower rather than on short term stimulative measures that fail to provide lasting employment in line with the occupational skills of the work force.

Stable and enduring growth of real incomes will depend on Canada's ability to reduce inflation and to improve productivity. It is important, therefore, that policies be developed to deal effectively with these issues and, again, to do so on a lasting and stable basis.

Because of the inherent regional diversity in the Canadian economy, improved economic performance will require an approach which is sensitive to regional differences. In cases where divergent regional interests lead to different policy proposals, stress should be laid on those policies contributing most to overall

national efficiency. This cannot, however, be done on a piecemeal basis. Many of Canada's longest standing policies are not consistent with the objective of meeting Canada's economic potential (e.g., tariff policies). Thus, supplying new policies without making old ones more efficient could result in an improper balance of economic activity among sectors and regions.

In pursuit of these objectives, the Government of British Columbia is proposing the adoption of new policy directions in four broad and related areas of government involvement in the economy:

- Government spending practices.

- Government policies to stabilize the economy.

- Government policies for the private sector.

- Mechanisms for co-ordination of economic policies among governments.

The problems which prevail in each of these areas together with recommended policy directions for their solution will be discussed in the following section.

### III. REFORMING CANADIAN ECONOMIC POLICY

#### A. Government Spending Practices

##### 1. The Facts

In 1976, government spending was equivalent to 40.5 per cent of gross national product. By way of contrast, in 1961 the comparable figure was 30.8 per cent. The spending of Crown corporations constituted a further 10.0 per cent of national output in 1976. The components of spending showing the most rapid growth over the 1961-76 period included spending on health programs, wages in the public sector, provincial debt servicing costs, transfer payments to individuals (e.g., old age security and U.I.C. payments), and federal subsidies and capital assistance to corporations.

While heavy spending increases occurred at the federal level, even more rapid increases occurred at the provincial level mainly in expenditure under shared cost programs such as health, education, social assistance, and regional grants.

##### 2. Causes of Growth in Government

Growth in government spending can be attributed to a variety of factors:

- (a) *Demographic Factors*—The passage through the school system of the "baby boom" coupled with the overall aging of the population structure, fueled a demand for education and other public services.
- (b) *Urbanization*—The migration from rural to urban environments has created a demand for more public services by urban dwellers. These demands have tended to be matched in less urbanized areas on grounds of social equity.
- (c) *Lower Potential for Productivity Increase*—As is the case in most service industries, the potential for productivity growth is lower in government than in industry.
- (d) *Demand for Public Services*—A natural consequence of higher levels of income is an increased demand for public services.
- (e) *Increase in Government Revenues*—Revenue from taxes normally grows faster than growth in the economy. Government revenue growth, particularly before indexing was introduced in 1974, gave rise to strong expenditure growth and somewhat negated the need to increase taxes to finance new programs.
- (f) *Public Sector Compensation*—Earnings of public employees accelerated rapidly through the early 1970's in relation to those in the private sector, but have since stabilized.
- (g) *Shared Cost Programs*—This area has shown the fastest rate of growth in provincial spending, and indications are that spending control by provincial governments over these "fifty-cent dollars" was inadequate.

As these factors suggest, a large part of the increase in government spending occurred because of legitimate public demands for services. In some cases, however, public demands may have reflected a lack of information on the ultimate cost of providing services. Costs, in turn, have run ahead of expectations because of weak



financial management practices in government, inefficiency in delivery systems, and public sector compensation settlements, and often it has occurred because cost information was simply not obtained or was not made adequately apparent to the public. It is these costs, for which there are no concomitant gains to society, that must be brought under control.

### **3. Economic Implications of the Growth of Government**

Probably the most serious consequence of the rapid growth of government spending is the inflationary process which it can fuel. If governments incorrectly gauge the mix of consumption (i.e., the transfer of consumption from private goods to public goods) then any of three serious inflationary effects could result.

Consumers may be reluctant to change their personal consumption patterns in spite of a reduction in take-home pay. If private consumption were sustained from savings, total demand in the economy could exceed available output and thereby put pressure on prices. This effect would probably not be maintained for long since it relies on a reduction in savings as a means of sustaining the real take-home pay rather than political pressure to reduce taxation. On the other hand, reductions in take-home pay could result in increased wage demands and higher wage settlements. If business can pass on the wage gains, then inflation results. If profits are reduced, investment may suffer. Finally, governments could become reluctant to seek additional taxation revenue and, instead, finance additional public consumption through larger deficits and ultimately monetary expansion. Each situation results from public resistance to the transfer of resources to the government, and the final arbiter in the battle for shares is inflation itself.

Inflationary pressures as such undermine the competitive position of Canadian producers. Such a weakened competitive position reduces investment and productivity growth, while increasing unemployment. Increased unemployment may then result in further pressures on governments to provide "stimulative" spending and the vicious circle tightens. The ease with which a country can be drawn into deeper problems of inflation and unemployment, with an eventual loss of confidence in government and the economy, is apparent.

Growth of government can exert a drag on the economy in other ways as well. In recent years, for example, high wages and good benefit packages have drawn a considerable amount of the economy's best manpower away from the private sector. Similarly, government borrowing requirements have drawn on savings which might otherwise have been channelled into investment in the private sector. The human and capital resources thus diverted to the government sector are no longer subject to the natural test of efficiency provided by the market place. The result can be to reduce the competitiveness and dynamism of Canadian industries.

### **4. Policy Directions for Government Spending**

In order to achieve the objectives of the proposed economic strategy the share of the nation's resources dedicated to governments must be reduced. Moreover, the growth of government in the future must be controlled in line with the public's desires. To accomplish this, governments must adopt effective procedures for financial management and must be made more accountable to their electorates. The following proposals should be adopted to meet these objectives.



### **(a) Temporary Restraint**

British Columbia recommends a period of temporary restraint as follows:

- For a period of three years all governments should restrain spending growth to a rate at least 1 percentage point below the growth rate in the economy (rate of growth of gross national product for the federal government, and rate of growth of gross provincial domestic product for each province).
- Because of the adjustment problems that might be encountered in a slow-growth region, no provincial government would be required to reduce the growth of spending below two per cent plus the Canadian rate of inflation.

It is expected that application of such restraint would halt growth in the government share of gross national product so that, by the end of 1980, the share of government would be about 40.0 per cent. If the growth of government were to continue in the trend established over the past 10 years, the share would expand to over 45.0 per cent by the end of 1980.

### **(b) Future Financial Management and Control**

The three year period of restraint should be used to develop mechanisms to control the growth of government. The first priority should be financial management within governments themselves. This would involve the application to government spending of an accounting system capable of handling three basic functions: planning, control, and reporting. The basic difficulty for financial control in government concerns the fact that benefits from government spending programs do not, in most cases, result in a measurable output. Thus the accounting system must allow politicians to establish targets and priorities and then ensure that these are met at the lowest possible cost. One possible system for this is the so-called "zero based budgeting" technique. The basic value of this approach lies in the fact that for each program, the alternatives of elimination, reduction, continuation at the same level, and expansion are all weighed on equal grounds. While this technique could be expensive to implement, it would appear to warrant study and investigation. As part of the National Economic Strategy, governments should undertake a joint evaluation of zero based budgeting as a method of improving financial control within government.

Coupled with the concept of zero based budgeting, the use of "Sunset Clauses" in legislation should be investigated. These clauses would bring a legal end to spending programs and regulatory practices and therefore force their review and reappraisal at some predictable time in the future.

Another area in which moves could be made to ensure effective financial control over governments would be the establishment of independent auditors. The federal government has such a mechanism in the form of an Auditor General and British Columbia has recently made a similar appointment. This practice should be adopted by all provinces.

Finally, to ensure that all governments report their revenues and expenditures on a consistent basis, consideration should be given to adopting common accounting practices. The national accounts basis utilized by Statistics Canada holds the most promise in this regard.

### **(c) Growth of Government Revenues**

As long as governments are able to finance increased expenditures without recourse to tax rate increases, it is possible to avoid full justification of spending decisions to electorates. This was especially true in the early seventies, before the indexing of the Personal Income Tax, when growth of public revenues well in excess of the growth of the economy contributed to the expansion of government. At that time, rather than running surpluses, governments spent their complete budget. Thus, in the recent downturn, governments have not been able to finance the programs put in place during the boom years without recourse to borrowing.

In order to improve accountability of government spending, there should be greater reliance on visible tax increases. Tax systems should be amended to yield a trend of revenue growth not greater than the rate of growth of the economy. In particular, indexation of personal income taxes should be retained, and means should be established to ensure that corporation tax is assessed on the basis of profits allowing for inflation.

In an inflationary period, present accounting systems for Corporation Income Tax overstate profits by understating depreciation (which is based on original cost) and by identifying as profit the increase in the dollar value of inventories that results from inflation. Thus nominal tax rates for many industries considerably understate true effective tax rates. The lack of "inflation accounting" for Corporate Income Tax may also have the effect of increasing dividend payout by corporations as they attempt to satisfy the expectations which their shareholders develop on the basis of the same exaggerated profit statements. The consequent reduction in real retained earnings may tend to dampen investment spending. Workers, too, may press for a larger share of the paper profits reported by corporations.

### **(d) Intergovernmental Transfers**

Another major factor which blurs the lines of accountability is the use of transfers between governments. Fiscal transfers in Canada are made either for specific purposes (i.e., Conditional Grants) or for general use (i.e., Unconditional Grants). During the 1976-77 fiscal year, federal Conditional Grants amounted to \$7.3 billion while Unconditional Grants added an additional \$2.6 billion. In total, therefore, some \$10 billion was raised by one level of government only to be spent by another.

By separating the need to raise taxes from the power to spend, transfer programs effectively undermine the accountability of governments to their electorate. Furthermore, conditional grants, especially those in the form of shared-cost programs, undermine provincial spending priorities as the provinces attempt to "get the most" out of the "fifty-cent dollars".

Under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act (March, 1977) the dollar-for-dollar Conditional Grants for certain programs (e.g., Hospital Insurance, Medicare, and Post-Secondary Education) will be replaced by federal cash contributions plus additional tax room for the provinces (13.5 percentage points of Personal Income Tax and 1 point of Corporate Income Tax). This is a process which should be extended to more programs.

In summary, tax points should be transferred in place of shared cost programs to the provinces, although block funding may continue to be necessary for some provinces.



### **(e) Income Support Consolidation**

One of the main areas in which government expenditures have grown substantially is that of transfers to individuals. British Columbia believes that this is a vital area for government spending but that the present system does not adequately serve the country's needs. Support is delivered in ineffective ways and often does not reach the people most in need. Moreover, certain groups, such as the low-income working population, are neglected almost entirely by the existing income support programs.

Since the Report of the Quebec Commission on Health and Social Welfare in 1970, it has been recognized in Canada that there needs to be a distinction between categorical income maintenance programs for the unemployable and income supplementation for those who have low incomes because they are employed at low wages and/or can only obtain part-time or seasonal employment. In spite of this, however, universal transfers are still emphasized in Canada and no effective income supplementation program yet exists. For example, about twice as much federal money is spent on universal transfers, including family allowance and old-age security pensions, as on income-tested or needs-tested categorical programs under the Canada Assistance Plan and the Guaranteed Income Supplement. Similarly, there are substantial federal expenditures for other programs having a redistributational element such as housing subsidies and Unemployment Insurance.

Categorical programs offer an effective means of delivering assistance to those individuals unable to support themselves. Under the existing system, however, the administrative costs are high and work incentives are lacking. Individuals qualifying for income support frequently suffer a reduction in total income if they obtain part-time or low-wage employment. This anomaly is particularly pronounced when such persons are also subject to loss in eligibility for transfers in kind such as housing subsidies or medical benefits. In addition, the universal demogrant programs, by paying benefits regardless of need, are not the most effective means to deliver support to the poor.

These programs should be restructured so as to:

- Permit the beneficiaries to retain some income from employment, thereby maintaining a work incentive.
- Eliminate overlap by consolidating programs, such as housing subsidies, into cash transfers to needy persons.
- Ensure that programs distribute benefits to those most in need.

Unemployment insurance should be restructured to emphasize temporary income maintenance in the event of involuntary unemployment. The 1971 revisions to the *Unemployment Insurance Act* resulted in a program that has proven very costly. The current U.I.C. program significantly alters employment incentives, and provides benefits without consideration for the needs or income of the recipients. By providing benefits to workers in casual or seasonal employment who expect to be unemployed on a regular or periodic basis, the current unemployment insurance system lowers wage costs in these activities because of the increased willingness of workers to enter the labour force or to forego other types of employment. However, by decreasing the cost and increasing the duration of unemployment, overall wage costs in the economy may be increased. Moreover, both of these latter factors, combined with extended benefits in areas of high unemployment, act to reduce movement of workers to areas with lower unemployment.

Recent revisions to the Unemployment Insurance system may reduce the cost and, to some extent, correct these problems. Further revisions, however, are likely to be necessary. In this regard, British Columbia recommends that consideration be given to the following:

- Reduction or elimination of benefits for workers who expect to be unemployed on a regular seasonal basis;
- Exclusion of secondary wage earners in relatively high income families;
- Elimination of disincentives to the movement of labour out of areas of high unemployment.

The final element in a restructured income support system would be an income supplement scheme designed to assist the working poor while still fostering work incentives. An earned subsidy or tax credit, which could be part of individual pay cheques, would appear to be the most effective policy in this regard. Under such a system, a low-income earner would receive a cash rebate based on some percentage of income earned. At some level, as earnings increased, the individual would begin to pay income tax.

#### **(f) Compensation of Public Sector Employees**

This is another of the "controllable" areas of government expenditure which must be given consideration within the framework of a national economic strategy.

Over the last 15 years compensation of most public employees has substantially improved relative to their private sector counterparts. The trend has not been smooth and continuous. Nor has the improvement always been in wages and salaries: fringe benefits and pension rights have also been considerably upgraded. However, the general story has been one of the public sector moving ahead faster than the private sector.

At the same time, there has been a fundamental change in the pattern of bargaining in the public sector. The degree of unionization in the public service has increased rapidly as governments have granted the benefits and rights of collective bargaining to their employees. In many cases the workers have been quicker to respond to the new "rules of the game" than have public sector employers. Some of the improvement in compensation has come from this new pattern of organization and bargaining. Other gains have simply been due to market forces. As governments have rapidly expanded their services, they have put pressure on supply and the market price for people having certain skills has risen.

This increase in compensation has had some serious consequences beyond its contribution to the growth of government. It has had a direct effect on private sector compensation and, thus, inflation. By bidding away labour from the private sector, the public sector raises labour costs in the private sector. In an inflationary environment, substantial and highly visible compensation settlements for public employees, can act as an important signal about governments' attitude to similar settlements in the private sector.

The twin considerations of economic efficiency and equity provide some guidelines for appropriate public sector compensation. Economic efficiency requires that government jobs be given to those who perform satisfactorily at the lowest wage cost to their employers, the taxpayers. Higher public sector wages means first, that the government sector is more expensive and therefore that taxes (or deficits) must be



higher than would otherwise be necessary. Second, higher wages for government employees will increase the supply of applicants for public sector employment. Finally, the bidding upwards of employee standards may become excessive and attract highly-qualified talent which might be better employed in the private sector.

It is imperative that public sector compensation no longer act as a trend-setter if government spending is to be controlled and if inflation is to abate. This does not mean that public employees should alone bear the brunt of winding down inflationary expectations, rather, that public sector compensation should follow not lead the private sector. Governments should adopt this principle and apply it in determining compensation increases of their public servants. In particular, average total compensation of public servants should not increase faster than average compensation in the private sector. Concentration on total compensation rather than wages and salaries alone is important, for reasons given above.

For individual employee groups, the pattern of settlement should be based on comparability with a like-group in the private sector wherever possible. This principle should be applied in a reasonable way to ensure the rights of public employees to determine the particular conditions of their settlements through the process of collective bargaining. Where a like-group is not readily available, public sector employers should be prepared to use market conditions to better gauge the rate of compensation that should be paid.

These principles should be adopted by all governments but each should be free to determine the details of their application. Just as a short-term ceiling has been suggested on the growth of government spending so a short-term guideline for average compensation seems appropriate until a new climate of bargaining within a less inflationary environment is established. Changes in average total compensation for the public sector could be set to a simple private-sector yard-stick which is agreed to by all governments. The backdrop of fiscal restraint will provide added assurance of a new era in public sector compensation.

To help implement the details of the compensation principles outlined, governments should be prepared to exchange information on labour market conditions and measures of total compensation. A mechanism for exchanging information on a regular basis should be established.

#### **(g) Competition Among Governments**

Competition among governments in Canada to attract industries to certain regions, to retain industrial activities within certain jurisdictions, and to develop new and popular public programs may also have contributed to the current financial difficulties of the public sector. On the revenue side, competition in the form of tax incentives for industry and more generous personal tax provisions can restrict government returns unduly. On the expenditure side, there is a need to examine how competition between governments in the form of industrial infrastructure, level of public services, standards of government programs, or even legislation such as minimum wages, exert upward pressure on government expenditures.

Governments in Canada should seek to harmonize their programs and reduce competition of the kind outlined above. In particular, they should examine the effect of "national minimum standards" in raising the overall levels of expenditure, and the ways in which demands for interprovincial parity in public goods and services are transmitted to government and result in increased government expenditures.

## **B. Government Policies to Stabilize the Economy**

In the discussion of government spending practices, emphasis was placed on spending related to the provision of public goods, services, and social programs. A large part, perhaps the largest part, of government involvement in the economy, however, relates to government policies which attempt to affect the nature and levels of economic activity. These policies can be conveniently divided into those concerned primarily with the overall level of employment and income generation in the economy (stabilization policy), and those concerned with the relative levels of activity among various economic sectors. Stabilization policies are normally structured to deal with short term demand deficiencies in the economy while policies to alter the allocation of activity among sectors tend to be longer term in nature.

### **1. Fiscal Policy**

#### **(a) Discussion**

Since World War II most industrialized countries have used taxing and spending policies in attempts to reduce fluctuations in the level of economic activity. That is, governments have used fiscal measures to maintain full employment, price stability, and high rates of economic growth. However, recent experience with high and often rising rates of inflation and unemployment, as well as slow growth, have cast doubts on the effectiveness of these policies.

Critics point out that economic decision-makers are not able to gauge accurately when the economy needs short term stimulation, when such stimulation should stop, what the best means of providing stimulation are, how and when various measures will affect the economy, and so on. This is particularly true in a period of stagflation when high unemployment, rapid inflation, and slow growth exist simultaneously. There is also evidence that fiscal policy operates differently in an inflationary economy than in one which has more stability in its prices. Finally, it has been argued that, in the name of stabilization, governments tend to run deficits in recessions but fail to maintain surpluses in years of strong growth.

An analysis of the use of fiscal policy in Canada over the past two decades indicates that errors have been made, but does not warrant the conclusion that fiscal policy should be totally rejected. In fact, fiscal policy may be one of the few acceptable methods of achieving short term goals once an overall economic strategy is developed. Fiscal policies must, however, be constrained to avoid many potential problems.

#### **(b) Policy Directions**

Given that the problems with regard to the timing and magnitude of fiscal policy measures are likely to remain for some time, emphasis should be placed on letting automatic stabilizers do much of the work, especially when the economy is close to full capacity and the margin for error is small. (Automatic stabilizers are programs, taxes, and other elements of the tax-spending system which cause tax revenues and spending levels to fluctuate with the level of economic activity, increasing spending injections when the economy is weak and reducing them when it is strong). Allowing automatic stabilizers to work will require governments to run deficits during economic slumps and surpluses during recoveries.



## **Active Fiscal Stimulation**

Fiscal stimulation should be applied cautiously to avoid large errors due to the uncertainties outlined above.

### **Preferred Methods of Active Fiscal Stimulation**

Methods of fiscal stimulation should be flexible, easy to implement, easily reversed or self-liquidating, and have low administrative costs. Tax instruments best fit this description and, in the case of stimulative measures, use of tax reductions would have the extra benefit of reducing inflation and pressures related to tax-push factors. Changes in general taxes would be preferred to adjustments in the tax base.

### **Use of Expenditure Policy**

To the extent that government expenditures are changed, the emphasis should be on speeding up and slowing down previously budgeted expenditures, and not on funding new ones. Recurrent expenditures should be avoided by directing discretionary policy toward capital projects.

### **Deficits and Surpluses**

To balance the budget over the economic cycle, governments must be prepared to accept surpluses as well as deficits. Excessive accumulation of deficits could be constrained by publishing medium-term budgetary estimates (5 years) indicating, at least in a broad way, the policy changes necessary to balance surpluses and deficits over the period.

## **2. Monetary Policy**

### **(a) Discussion**

Proper monetary and exchange rate policy are central parts of any strategy aimed at reducing the rate of inflation and creating economic stability. The present state of knowledge on the subject suggests that some form of monetary rule, whereby the growth of the money supply is tied to the growth of the economy, is best for Canada. This means that the money supply, appropriately defined, should grow at an annual rate which allows for the growth of output and employment but reduces the rate of price increase. Such a rule would dictate that the money supply not be allowed to increase as rapidly as it did in the early 1970's. This excessive money supply growth contributed to the severe inflation the economy has endured in the seventies and to the present structural economic problems. A monetary rule would prevent rates of increase of the money supply too far in excess of rates of increase of real GNP. (For example, during the period 1970/77, the rates of increase of the money supply have varied from two to seventeen times greater than the rates of increase of real GNP).

### **(b) Policy Direction**

#### **Monetary Rule**

The Bank of Canada's current monetary policy, which is in the form of a monetary rule, should be supported in principle. However, the Bank's actual method of controlling the money supply and its definition of the most appropriate monetary aggregate for control, should be reviewed.

### **3. Exchange Rate Policy**

#### **(a) Discussion**

In the long run, exchange rates will reflect the relative competitive positions of nations in world markets. If a country attempts to hold its exchange rate at an artificial level, the underlying structure of its economy could be affected. Maintaining a floating exchange rate, on the other hand, will not hinder a country's international competitiveness as long as proper domestic policies are pursued to control inflation, unemployment, and growth.

A floating exchange rate can act to insulate the economy from foreign economic disturbances. While it will not always completely negate such disturbances it will tend to reduce the variability in national income. It should also be noted that, in order for the monetary policy recommended above to be effective in controlling domestic inflation, it is necessary to maintain a floating dollar. Finally, evidence indicates that fiscal policy would still be effective as a short-term demand management measure when applied in conjunction with a floating exchange rate.

#### **(b) Policy Direction**

Canada should continue to maintain a free floating exchange rate.

### **4. Government Finance Policy**

#### **(a) Net Financing Requirement**

Although it does not appear to have done so in the past, the net financial requirement of the federal government could distort monetary policy by forcing the Bank of Canada to finance government borrowing in an inflationary manner.

Since 1974, the federal government has created an enormous financial requirement. While the 1973 federal net financing requirement stood at a mere \$15 million, by October 1977 it was estimated at \$8.8 billion for the year. It is the position of British Columbia that the Bank of Canada should not be forced by the financing requirements of the federal government, to deviate from its monetary targets.

#### **(b) Government Borrowing**

The size of government financing requirements has implications for monetary policy, the size of the government sector, the "crowding out" of the private sector in financial markets as well as in real investment, and for the exchange rate. The arguments are as follows:

- In the case of monetary policy, if the federal government's net financing requirement is large, and if it is financed by printing money, this could lead to excessive monetary expansion.
- If the absolute size of government financing requirements are too large, this could indicate that the government sector has grown too large.
- If governments borrow large amounts of money in the domestic market, there is a risk of pushing up interest rates and/or taking up funds that would potentially be used in the private sector.
- Finally, if governments go to foreign markets to borrow excessive amounts of funds, this will tend to force up the exchange rate and could hurt Canada's competitive position.



Problems concerning deficits and borrowing requirements in the government sector are related to their impact on (a) the money supply; (b) the level of investment; and (c) the exchange rate. To constrain active monetary policy, adherence to a money supply rule and a floating exchange rate has been advocated. To prevent "crowding out," procedures for making the size of the government sector more responsive to public demands have been proposed. To ensure that the exchange rate reflects the underlying competitive position of the economy, the federal government is advised to refrain from attempting to artificially support or depress the rate. With the above policies in place and the fiscal policy reforms suggested earlier, government borrowing should not present any problems.

## **C. Government Policies for Industrial Development**

### **1. Principles of An Industrial Strategy**

It is British Columbia's view that special measures taken in support of specific industries or sectors should be co-ordinated within an industrial strategy which would itself be in line with the overall national economic strategy. The industrial strategy would identify directions along which industrial policy could be developed to facilitate the most effective achievement of medium to long term economic objectives.

The industrial strategy would be based on two principles: First, competitive market forces, rather than government policy, would be relied on to set the level of activity in particular sectors over the long term. Second, industrial policy would be set so as to facilitate, not prevent, changes in the relative level of activity between sectors. Policy would not be designed, as it has been in the past, to maximize or to maintain production and employment in each sector. Instead, emphasis would be placed on easing the burden of change as protective measures for particular Canadian industries were reduced.

### **2. International and Domestic Trade**

Moving the country toward full and orderly integration into the international economy would enhance Canada's economic and productivity performance. In many sectors, Canada's domestic market will not support competitive production on scales large enough to keep costs to minimum levels. Attempts by Canadian manufacturers to duplicate the full range of product lines produced by large scale international competitors result in shorter production runs, inefficient use of capacity, higher production costs, and, ultimately, higher prices for consumers.

Canadian industry must be given maximum opportunity to expand into export markets while facing the challenge of increased international competition at home. In addition to increased consumer purchasing power, reduced tariffs and other trade barriers would lower the cost to Canadian firms purchasing inputs for their own products. With better market access and cheaper input costs, opportunities for further processing of resource products in Canada would be improved.

In support of initiatives toward more liberalized international trade, Canada should:

- Keep to an absolute minimum any exceptions to tariff cuts which may emerge from the GATT negotiations.
- Negotiate forcefully for maximum removal of tariff and non-tariff barriers to Canadian firms selling in foreign markets in return for substantial cuts in Canada's trade barriers.

- Undertake bilateral discussions with various countries to augment the modest moves toward trade liberalization expected from the GATT discussions. In agriculture and other resource-linked sectors, it should be possible to move further, and more quickly, to reduce trade barriers by negotiating on a bilateral basis.

Protective policies are not the sole preserve of national governments. Provincial governments also use various techniques to protect local producers, thereby balkanizing what could be an efficiently functioning and freely competitive market across Canada. Among the barriers are preferential purchasing policies, labour practices restricting the free movement of workers among regions, liquor board practices, marketing boards, and so on. While no one province will wish to remove such barriers unilaterally, a process could be initiated whereby joint action among all governments could prove beneficial.

### **3. Policy Concerning Regulatory Intervention**

Regulatory practices and tribunals have a substantial and far-reaching influence upon economic activity in Canada. Sectors such as transportation, telecommunications, and the utilities are subject to public ownership and/or regulation. Real estate and securities brokerage are subject to regulation by government tribunals, while the professions are largely self-regulated. Other regulatory functions such as the determination of health, safety, and environmental standards influence all sectors of the economy. Recent government incursions into the marketplace in the form of wage, profit, and rent controls have created sweeping regulatory powers.

In many cases, regulatory policies and practices have developed as a result of particular problems and needs arising in the past. For example, regulatory practices in transportation, that may have been necessary to protect consumers from abuse of monopoly market-power when transportation alternatives were limited, can now inhibit effective competition, increasing the cost to consumers.

Transportation also provides an example of the many areas where further replacement of regulatory intervention by a reliance on competitive market forces would likely be of benefit to the economy at large. In 1961, the Macpherson Royal Commission foresaw the possibility of increased competition between various modes of transportation on the Windsor/Quebec City corridor. Since that time, developments in technology, expansion of infrastructure, and so on have broadened the scope for effective competition. Protection of the consumer interest and that of the economy as a whole would be best served by allowing these competitive forces to fulfill the "regulatory" function.

In general, regulatory practices and decisions should be made only after consideration of their full economic implications. If the objectives could be met by market alternatives to regulation, these should be used. When regulation is the only alternative, it should be based on sound economic criteria such as, for example, the use of marginal cost pricing for public utilities. An overall review of regulatory practices should be undertaken to identify areas where these should be amended or, if possible, dropped. Proposed guidelines for this review are as follows:

*Maximum Deregulation*—Where consumers/users have access to alternatives or substitutes, competition should be fostered and the product line or service area deregulated.



*Residual Regulatory Role*—Regulation should be confined to areas where factors such as monopoly power preclude the use of market-type alternatives (e.g., in the case of utilities).

*Reduce Cross-subsidization*—User charges for products and services should be applied, where practicable, at a level sufficient to cover incremental cost. Hidden subsidies should be replaced by direct visible support.

#### **4. Taxation of Industries**

Governments have tended in the past to use certain policies and measures to support particular sectors or industries. For example, the tax treatment of investment in exploration in resource industries is different from that applied to research and development expenditure in manufacturing. This differentiated treatment tends to attract resources into the preferred sector to a level beyond that which would have been reached in the face of market forces alone. Such practices tend to reduce the country's overall economic potential by attracting resources which would have been better employed elsewhere to the "supported" sector.

Corporate taxation, in its current form, results in distortion between sectors due to the lack of inflation accounting. The effects of this on government revenues were discussed above. It should be noted here, however, that the impact of inflation on corporate taxes varies between industries. The effective tax rate on profits adjusted for inflation is higher for industries with old capital and large inventories than it is for others (e.g., merchandising relative to manufacturing).

A further problem with industry taxation policies has been uncertainty about future tax levels. A major cause of taxation instability has been federal/provincial disputes over resource taxation. The producing provinces point to ownership of the resources under the Constitution and argue that they should have the right to sell them at the best price obtainable in the market. It is also suggested that a move to world market prices would encourage Canadians to alter their consumption patterns so as to conserve on scarce natural resources.

The federal government, however, has shown its concern with the enormous increase in equalization payments that would accompany any move to world prices for all resources, even under the amended equalization system. A new system that introduced direct payments from rich to poor provinces, combined with a reaffirmation of provincial supremacy in resource taxation, and a move to world market prices for resources, might represent a long-term solution.

The following general proposals dealing with the taxation of industries are suggested as departure points for development of more specific policies:

- Federal and provincial governments should revise their tax policies to ensure balanced treatment across industries. To the extent that favoured treatment for certain firms or sectors continues to be provided, an "expenditure equivalent" should be recorded in government accounts to improve awareness and accountability on the nature of such transfers.
- Governments should commit themselves to maintaining increased stability in corporate taxation. In the case of resource taxation, long-term stability may require an amendment of the equalization formula while moving to world market prices for resources.

Another case where the problems resulting from differentiated treatment between sectors arises is, of course, that of direct and indirect subsidies to specific industries. The very intent of these subsidies is to support an uneconomic level of activity in a particular industry. While such measures may prove necessary in the short term to avoid such problems as large scale layoffs in a particular industry or region, they weaken the foundation of the economy for the long term.

A long term industrial development policy should be founded on a commitment to allow market forces to dictate the allocation of human and capital resources and should, in most cases, avoid ongoing sector specific subsidies. Rather, the focus of industry policy should be to foster productivity improvements and to improve the effectiveness of market mechanisms. Activities, such as export promotion, research and development, and dissemination of information on production or management techniques, some of which are currently part of government initiatives, are more appropriate areas for government involvement.

## **5. Regional Policies**

Regional development policies, as part of an overall national economic plan, should be designed to ensure that each region achieves its economic potential. They should not, as has frequently been the practice in the past, encourage protected non-competitive industries in areas of high unemployment. Such policies increase the ultimate costs to the country as well as to the workers who will face difficult and costly adjustments when it becomes necessary to reduce the cost of supporting these industries.

An example of the potential problems in this approach can be seen in the textile, clothing, and footwear industries. In these cases, an ever-widening competitive gap exists between the Canadian industry and that in less developed countries. This has led to the need for higher and higher protection, culminating in the recent imposition and tightening of quotas and trade restrictions. In spite of the obvious vulnerability of these industries, regional industrial incentives continue to draw investment and manpower into these industries and the regions dependent upon them.

Long term problems aside, the current regional policies, principally DREE programs, have often failed to meet even their short term goal—to reduce unemployment in slow growth regions. Industries have been induced to relocate by DREE incentives but have failed to provide suitable employment opportunities for the local labour force. Skilled personnel, which had to be recruited from outside the region, have often been required to staff the facilities. Thus, while the population of the region may have increased, the social and economic adjustment costs for groups actually experiencing high unemployment were not substantially affected. Recent emphasis in DREE programs on the provision of infrastructure offers little hope for dealing with regional unemployment problems.

In considering regional development policies, it is important to be constantly aware that regions should not be developed for the sake of the region itself. It is unemployed and low income persons, often concentrated in specific areas, that are the subject of concern. With this in mind, British Columbia advocates policies targeted specifically at individuals with these problems rather than the pouring of money and resources into the general area in which they live.



In particular:

- For persons with low income, consolidation of social security transfers should be combined with an earned income supplement designed to augment the income of individuals and families most in need (*see* section on policy proposals for government spending).
- Regional industrial incentives should be replaced by an incentive program specifically designed to encourage firms to employ persons with limited employment opportunities. Regional employment subsidies could be linked to the federal government's employment tax credit.
- Existing programs of the Department of Regional Economic Expansion should be allowed to expire, with joint federal/provincial programs to be administered by the provinces for the duration of their term. The Department of Regional Economic Expansion should be eliminated in favour of a system of transfers specifically targeted at individuals.

## **6. Adjustment Assistance**

Removal of trade restrictions and support policies for specific industries will expand output and employment as well as enhance productivity. However, this will occur on an uneven basis. Some industries will decline, and this may result in pockets of unemployment or reduced participation in the work force by workers unable to obtain alternative employment in their community. Adjustment assistance policies are required to ease the social and economic burden placed upon these workers during the transition to a more efficient pattern of production. The emphasis of these policies should be on facilitating re-employment of workers who have, or who can develop, alternative opportunities while offering support to those who cannot.

Firms will also need to adjust as increased competition reduces production of some products and creates new opportunities for production of others. However, direct assistance will not normally be required to enable firms to take advantage of viable new opportunities. Market forces will direct capital to alternative uses, and governments, if they intervene at all, should concentrate on making the adjustment process more orderly through a gradual rather than a single step reduction in a protective tariff or cash support system.

While specific measures to assist firms may not be required, accommodating changes might be needed in financial markets. There is evidence that the structure of the Canadian Financial System distorts both the mix of assets between consumer and business loans and the flow of funds for business loans between regions. A more competitive financial system could be encouraged through revisions in the Bank Act. By increasing competition between the chartered banks and near banks, businesses should gain more access to funds generated through private savings. In addition, regions would benefit from a more efficient provision of banking services.

As a complement to a strategy for structural economic reform in Canada, adjustment assistance policies should involve the following elements:

- Integration with revised regional employment support policies for areas where high unemployment is likely to occur and with manpower retraining and mobility programs to facilitate re-employment.
- Manpower and mobility programs should be stepped up to facilitate the movement of adaptable workers into more productive avenues of employment and into regions having greater economic potential.

- Selective employment subsidies or pensions for older workers who, because of age, education, location, or other significant barriers to mobility, lack alternative opportunities.
- As for firms, increased demands on capital markets may be anticipated during the transitional phase. Steps should be taken, possibly through the Bank Act revision, to encourage a higher degree of competition among Canada's financial institutions. This will ensure that firms are able to obtain adequate financing for plant modernization and/or expansion as well as providing improved opportunities for Canadians to invest their savings in the economy.

## **D. Regional Accommodation**

### **1. The Role of the Provinces**

Realization of the nation's economic potential will demand that provinces develop policies in a manner consistent with an overall economic strategy and that they be given the opportunity to participate in the formulation of national policies. The provinces have much to offer national policy making by way of knowledge of the structure of their regional economies and the concerns unique to their area.

In addition, the expansion of the spending levels of provincial governments has increased their impact on the functioning of the national economy. Likewise, the transfer of tax points to the provinces, in lieu of cost-shared programs, has further strengthened the potential of the provinces to affect the performance of the economy.

To account for these factors, provincial input is required in three broad areas including consultative forums, economic research, and regulatory agencies. These are discussed, in turn, below.

### **2. Consultative Forums**

One of the basic elements necessary for a co-operative approach to national economic policy making is already in place—the many different avenues for federal/provincial consultation and discussion. In fact, in 1975 over 780 federal/provincial meetings were held. There are, however, a number of problems which, if resolved, would make this system of contact more effective.

The present system has evolved from a series of gradual, practical response to the increased interdependence of governments. There has been no real concern for co-ordination. Systematic procedures for calling meetings, setting agendas, terminating debate, establishing consensus, and implementing agreements are lacking. Most importantly, however, no formal mechanism exists to ensure meaningful and early consultation on matters of concurrent federal and provincial interest, nor to monitor government follow-up of the results of intergovernmental consultation.

Federal/provincial forums should provide for meaningful discussion of topics on a time frame beneficial to all. The following points should guide the establishment and operation of these bodies in the future:

- Governments should commit themselves to early consultation on matters of mutual concern. This should be accomplished through confidential intergovernmental discussion of general policies prior to the formulation of legislation and greater recognition of, and obligation to, consult in the many areas of concurrent interest.



- Provincial input should be formally taken into account on questions of procedure including agenda, timing, appointment of chairperson, and frequency of meetings. These inputs might be ensured through the development of guidelines and operating procedures.
- A mechanism should be established to remove unnecessary or ineffective bodies.
- Consultative bodies should be organized in functional areas with a clearly defined mandate and operating life (e.g., a Committee on Oil Allocation Policy to recommend the appropriate allocation of domestic crude oil).
- To resolve specific matters, the current practice of establishing ad hoc groups, on either a bilateral or multilateral basis, should be continued.

### 3. National Economic Research

The nature and conduct of economic policy research at the national level is inadequate. Reforms are needed to ensure that national research bodies undertake studies in areas, and in ways, that reflect the interests and concerns of the provinces. First among the problems with the conduct of national economic research is the fact that the data collected in the federal agencies is structured mainly for national purposes. Sets of regional data are frequently not available. Moreover, there are few provisions for freedom of information in Canadian legislation. Thus, the provinces as well as the public, encounter problems in securing economic information promptly. Frequently, the kind of information required to effectively express a regional viewpoint exists within the federal government, but the provinces may be denied access to it and, therefore, be forced to duplicate costly research.

The Economic Council of Canada, now 15 years old, was established to provide the basic economic research necessary for improved national policy making and economic performance. The Council was also directed to raise the level of public debate on economic issues in Canada, and to ensure broad support for new policy directions among major interest groups. While all three of these objectives were commendable, they were not compatible within a single economic institution. The Council interpreted its mandate to mean that it had to achieve a consensus among the interest groups it represented before endorsing reports or making general recommendations. Good policy analysis is not always amenable to consensus, so consultation and decision making must often be divorced from economic analysis—particularly when significant structural changes to the economy are being contemplated. The chief economic research agency must maintain both independence and integrity, but there should also be regional advice and continuing liaison during research projects concerning the regions.

The absence of formal provincial representation on the Economic Council denies the provinces the ability to request and monitor the kind of economic research they view as essential to an understanding of economic policies. To correct these problems, the following proposals are made:

- Federal data collection agencies should put more emphasis on the regional breakdown of data than is now the case.
- In order that the Economic Council of Canada be made responsive to both levels of government, it should be restructured such that reports and recommendations are subject neither to a consensus requirement nor to a veto, and its members should include provincially appointed representatives.

#### **4. Federal Economic Policy Agencies**

Excessive regulation of the economy has contributed to a variety of the economic ills in the different regions of Canada. The general economic effects of some of these regulatory systems have already been suggested. Quite separate from these effects, however, is the question of whether the regional dimension has been adequately taken into account by these national regulatory agencies. The institutions where provincial input appears to be particularly lacking include the following:

- Canadian Transport Commission.
- Anti-Inflation Board (or its successor).
- National Energy Board.
- Tariff Board.
- Canadian Trade and Tariffs Committee.
- Anti-Dumping Tribunal.
- Bank of Canada.
- Competition Board (in formation stage).

Besides these nationally-constituted bodies, other international forums (such as GATT) and bilateral agreements with foreign countries (such as the Canada-United States Pipeline Treaty) often bear directly on regional economic concerns. Federal/provincial consultative mechanisms in the area of international economic policy need new refinements, given the extent to which international relations have become dominated by economic concerns.

The nature and structure of present regulatory agencies do not adequately account for regional concerns. First, the terms of reference of the agencies usually do not provide for sensitivity to regional concerns. For instance, the Anti-Dumping Act is very narrowly construed. Under this legislation, the Anti-Dumping Tribunal cannot consider injury to a domestic producer in the market it naturally and normally serves. The Act fails to recognize that Canada is comprised of regional economies with different needs.

Second, all agencies do not have formal representatives of the regions on their governing bodies. Third, the agencies often fail to appoint provincial representatives to the many specific, technical committees that are established. The lack of informal working relationships between provincial officials and officials of the national regulatory agencies is perhaps the most serious concern. As things stand, the provinces can only comment on matters that have already been decided. What is needed are mechanisms whereby the provinces can initiate action by requesting that the agency review the regional situation. In particular, five changes are proposed:

- Federal regulatory agencies should be regularly reviewed by the appropriate federal-provincial meeting of ministers having responsibility for that issue.
- Federal regulatory agencies may in some instances need new or amended mandates to ensure that diverse regional interests are represented (e.g., the Anti-Dumping Tribunal).
- Federal regulatory agencies should facilitate provincial input at the technical level in the policy review process such as has been developed for FIRA. Other agencies may require official provincial representatives on their governing bodies.
- Some agencies might operate more effectively if their quasi-judicial status were removed and they were integrated into a federal department (e.g., the Tariff Board).



## IV. POLICY IMPLEMENTATION

This report has put forward numerous proposals for economic reform in Canada. The proposals are directional rather than detailed and specific. They are intended to provide a guiding framework against which more precise and easily implemented policies can be achieved through a process of policy development and consultation. Such a process can be of short duration for some policies but could take more than a year for others.

It is now imperative that mechanisms be put in place to ensure that, through a process of federal/provincial economic co-operation, the necessary restructuring of economic policy takes place. Because of the significance of the subject matter, and because of its great breadth, First Ministers will have to assume heavy responsibility for maintaining the momentum required for implementation.

At the working level it will be necessary for each government to appoint one individual, preferably reporting to the First Minister, to act as the economic policy co-ordinator. This person would be responsible for co-ordinating the work toward strategy implementation within his government and among the other ten governments. Collectively the economic policy co-ordinators would form a high level federal/provincial secretariat on economic policy and strategy. As a group they would report to the Council of First Ministers on issues and progress toward implementation. They would also be responsible for identifying areas for detailed study by working groups and for the setting of broad policy directions and terms of reference as a guide to those preparing specific policy proposals. Recommendations on such matters would be put before First Ministers who would then forward their instructions for work toward implementation to the relevant Federal/Provincial Ministers Conference.

Finally, in view of the fact that economic policy reform should stress structural reform in the economy and therefore deal with causal factors underlying inflation and unemployment, there will be little, if any, need for a post-control monitoring agency. Where serious problems arise in the post-control period, it is expected that they can be handled by the mechanisms suggested for policy implementation.

British Columbia proposes that the following mechanisms (see chart p. 44) be established:

### **Council of First Ministers**

- It is proposed that, in order to give formal recognition to the importance of a co-operative approach to economic policy in Canada, First Ministers sit semi-annually as a Council of First Ministers. This Council would meet specifically to discuss and deal with matters pertinent to implementation of reformed economic policies in Canada.

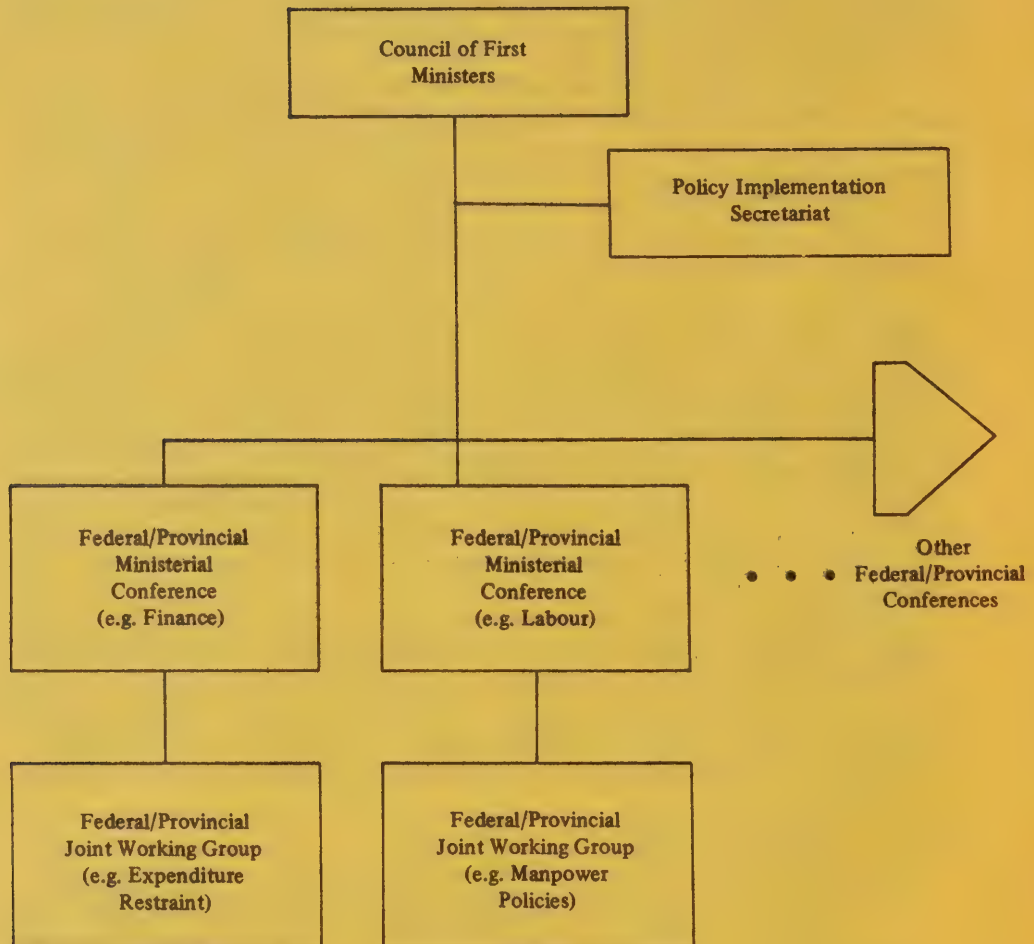
### **Federal/Provincial Ministerial Conferences**

- Federal/Provincial Ministerial conferences would set up joint working groups, as required, in order to develop necessary policy proposals and/or other studies.

### **Federal/Provincial Policy Implementation Secretariat**

- Each First Minister should designate one senior official as the economic policy co-ordinator for his respective government. This group of officials would be collectively responsible for the scheduling, co-ordination and planning of work toward policy implementation.

## MECHANISMS FOR POLICY IMPLEMENTATION



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CANADIAN INDUSTRIAL POLICY

Background Paper

Ministry of Economic Development

February 1978



PART ONE

AN INDUSTRIAL STRATEGY

FOR CANADA





## AN INDUSTRIAL STRATEGY FOR CANADA

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## I. THE NEED FOR AN INDUSTRIAL STRATEGY

At this stage in the process of developing an Industrial Strategy, it is possible only to outline the overall directions for specific policy areas and to suggest goals that will best achieve the objectives of an overall Economic Strategy. An integrated framework to coordinate specific policy goals is essential if more coherent policies are to be developed and the economic costs of achieving specific goals are to be minimized. In the past, governments in this country (and most others) have responded to specific problems or perceived problems on a crisis basis and in an ad hoc manner. This pattern of reacting to problems has tended to result in grafting a new program, or imposing a new intervention onto the already complex, cumbersome structure of programs and regulations, as each "new" problem arises.

Often the "new" problems are simply recurring manifestations of "old" underlying problems concealed by a "patchwork quilt" of "short-term" remedies. Unfortunately, these "short-term" policies are never reviewed to determine their effectiveness. As a result they have become embedded in the structure of the economy. On the rare occasion that these "short-term" solutions are reviewed, they are seldom discarded or revised. No matter how inefficient or costly, some group benefits from the program or intervention. In fact the benefiting group frequently has grown as a result of distortions of investment incentives, and would be subject to dislocation as a consequence of reform. These vested interests (which include the bureaucratic delivery systems and regulatory agencies) can mobilize political and administrative resources to lobby for retention of the programs. Moreover, they can appeal to the public interest on the basis of "need" because the underlying problems that motivated the original interventions persist.

The current problems of the world economy and the particular problems of the regional economies within Canada

indicate the dangers of the lack of an Industrial Strategy to guide and to restrain intervention by governments. Many of the problems that plague our economy are not new, but the cost of failing to resolve these problems has become more apparent. During recent periods of rapid expansion of international trade, economic growth in the world economy, and strong demand for the resource products that form the bulk of our exports, Canadians became complacent. However, with the lagging recovery in the world economy, there have been demands for more government intervention and protection to sustain income and employment expectations in noncompetitive activities.

Productivity growth and enhancement must be sought in all sectors within each of the regional economies. Only in this way can the regional economies become and continue to be cost-competitive in the world economy. Commitment to this basic theme in policy formation is essential to sustaining long-term growth in real incomes and employment.

Unless policy directions which identify the most effective means of achieving overall economic objectives are established, there is a serious risk that governments will respond with further interventions. These may ameliorate the symptoms of our economic malaise, but act to impede further the longer-term development of the regional economies of Canada. Once basic policy directions to guide and to restrain intervention and regulation by governments have been developed, it will be possible to investigate the sectoral implications of implementing basic policy changes.



## II. POLICY DIRECTIONS

### A. Commercial Policy

The long-term policy direction for commercial policy should be full and orderly integration into the world economy. Canada's resource industries compete in international markets and have attained high levels of productivity. In part, this reflects our resource potential, but more important is our ability to apply capital, technology, and skills to the management and development of this resource potential. Much of our manufacturing and most of our exports are dependent on resources.

The performance of secondary industries in the manufacturing sector is less satisfactory. In some cases, such as labour intensive, basic technology industries, Canadian commercial policy has maintained and protected industries which are increasingly noncompetitive. This has hindered necessary product specialization and/or productivity enhancement in these industries and distorted investment incentives and employment patterns. In an analysis of patterns of trade between Canada and less developed countries and the structural adjustment of Canadian industries, Langdon (1977) concludes that adjustment policies have been ineffectual or perverse, channeling investment and manpower into increasingly noncompetitive sectors. Increased "temporary" trade restrictions have been imposed upon imports in basic technology industries such as textiles from less developed countries, further delaying necessary adjustment.

In many secondary industries where Canada would not be expected to be at a competitive disadvantage relative to other industrialized countries, Canada is handicapped by higher unit costs. Much of this productivity gap is a direct consequence of the small size of the protected Canadian market. In some cases, the large scale of production necessary to realize full productivity results in only a few plants to serve the Canadian market. Duplicating the full range of product lines from

international competitors, and the greater difficulty in matching overall industry capacity with demand, results in shorter production runs, higher levels of excess capacity, and higher unit costs. Another factor contributing to lower productivity in the protected Canadian market is the slower pace of technological adaptation relative to the United States and Europe (Daly and Globerman (1976)).

In an extensive study of the effects of tariff levels and the number of firms in the industry upon comparative unit costs and unit profits in manufacturing industries in Canada and the United States, Bloch (1974) found that industries with higher tariff levels have higher unit costs than comparable U.S. industries. Bloch also found that Canadian industries with higher tariffs and fewer producing firms had both higher unit costs and higher unit profits. Industries with high tariffs and few firms had prices 7 to 12 percent higher than in equivalent U.S. industries. Bloch argues that either competition policy or lowering tariffs would lower the prices of manufacturing products, but that competition policy would primarily reduce unit profits while lower tariffs would lead to reduced unit costs.

Trade liberalization would lead to reductions in unit costs because of removal of tariffs on inputs and through realization of the efficiencies of large scale production, longer production runs, and product specialization. The potential for substantial productivity improvements in Canadian manufacturing industries from these sources has been identified in several studies. (See Daly, Keys, and Spence (1968), Bloch (1974), Daly and Globerman (1976) and Gorecki (1977)). Studies of trade liberalization in Europe, Central America, and Australia/New Zealand indicate that trade expansion and product specialization resulted in minimal adjustment problems (see Grubel and Lloyd (1975) Chapter 9).

In terms of the regional impact of lowering Canadian tariffs, the resource based regional economies of the Maritimes, Northern Ontario, Northern Quebec, and the West would benefit immediately from lower consumer and input prices. After the

initial period of adjustment, the manufacturing industries of Southern Quebec and Ontario would achieve substantial productivity improvement and benefit significantly from gaining access to foreign markets (Wonnacott (1975) pages 166-172). Access to foreign markets would also provide opportunities for further processing of resources in the resource based regions. Wonnacott estimates that full trade liberalization would raise real income between 5 to 10 percent with the greatest long-term productivity and income gains (higher than 10 percent) accruing to the industrialized region of Southern Ontario and Quebec (Wonnacott (1975) page 172).

In a comprehensive study of the economic implications of alternative trade strategies for Canada, the Economic Council has concluded that Canada cannot hope to achieve desired growth in high technology industries if it is isolated from the major industrialized market areas of Japan, the United States, and Europe. The Canadian common market has been a basic element of Canadian Confederation; however, its basic direction should turn outwards to gain access to large markets for our manufactured products.

Integration into the world economy with access to larger markets will provide opportunities for product specialization, higher levels of capacity utilization, and lower unit costs which are essential to Canada's sustaining a cost-competitive manufacturing sector. Freer trade will ensure consistent productivity growth in all sectors of the economy.

#### Implementation

Canada should pursue policies conducive to freer trade both internationally and domestically to provide opportunities for productivity enhancement through access to larger markets.



(i) International

- . Keep to an absolute minimum any exceptions to tariff cuts which may emerge from the GATT negotiations now underway in Geneva, Switzerland. For example, Canada should support the U.S. position of no net exceptions.
- . By demanding few, if any, exceptions, Canada would be in a strong position to negotiate for maximum removal of tariff and non-tariff barriers to Canadian firms selling in foreign markets. As tariffs are reduced, non-tariff measures take on more significance.
- . Canada should not depend solely on the Geneva negotiations as the only vehicle for integrating Canadian industrial sectors into the international economy. Bilateral discussions with various countries should proceed vigorously to ensure that the modest pace of trade liberalization expected from the GATT discussions does not lock Canada into maintaining its problem-ridden industrial structure for many years to come. Specifically, Canada could negotiate with the United States for removal of tariffs below 5 percent as permitted under the United States Trade Act of 1974. A large proportion of Canadian exports to the United States are subject to tariffs in this range.
- . Canada should embark upon a process of converting its complex array of invisible industrial support policies into a form of budgeted cash support in order that taxpayers can assess the merits of these programs in relation to their costs. Industrial welfare policies, like welfare payments to persons, should require governments to account for the programs by putting tax increases before the public.



(ii) Canadian Common Market

Protective policies are not the sole preserve of national governments. Provincial governments too use various techniques to protect local producers, thereby balkanizing what should be an efficiently functioning and freely competitive market across Canada. Among the barriers to interprovincial trade are preferential purchasing policies, labour regulations and practices restricting the free movement of skilled workers among regions, liquor board practices, and marketing boards for agricultural products.

There are a large number of marketing boards possessing different powers and having different functions. Those marketing boards, which practice supply management through quotas on production and restrictions on extraprovincial and foreign imports, increase food prices and reduce the efficiency of the agricultural sector. (Food Prices Review Board (1976)) The capability of marketing boards to practice supply management should be reduced, to be replaced with more visible support in the form of subsidies. Marketing board and other regulations which impede the development of the most efficient pattern of production and the free flow of trade within Canada should be a priority for reform.

## B. Regulatory Policy

### (a) Policy Issues

Regulatory practices and tribunals have a substantial and far-reaching influence upon economic activity in Canada. Sectors such as transportation, telecommunications, and the utilities are subject to public ownership and/or regulation. Services such as real estate and securities brokerage are subject to regulation by government tribunals, while the professions are largely self-regulated. Other regulatory functions such as determining health, safety, and environmental standards influence all sectors of the economy. Recent government incursions into the marketplace in the form of wage, profit, and rent controls have created sweeping regulatory powers.

These latter regulatory functions are a response to short-term problems. Once the initial impetus has abated, these areas should be deregulated. Most regulatory functions flow from perceptions of market imperfections of a more lasting type, but these perceptions can become obsolete.

In most cases, present regulatory policies and practices have developed historically from, and are conditioned by, particular past industry or user problems and needs. For example, regulatory practices in transportation that may have been necessary to protect consumers from abuse of monopoly market-power when transportation alternatives were limited can now inhibit effective competition, increasing the cost to consumers. There has been gradual progress towards deregulation of some elements of transportation since the Macpherson Royal Commission in 1961. However, this policy could be applied more consistently in the transportation sector and extended to other sectors such as telecommunications where changes in technology increase the scope for competition in some service/product lines. (Baumol et al (1970))

In the case of transportation, changing economic and technological factors and ongoing infrastructure development have increased the potential for decentralized market forces thereby reducing the need for detailed regulation. In general, regulatory policies and procedures should be subject to regular review (i.e. every ten years). This would ensure that regulatory practices are rationalized in light of changing economic and technological factors and are consistent with evolving socio-economic goals.

In a thorough study of railway freight rates since the inception of the National Transportation Act in 1967, Heaver and Nelson find that dynamic competition between different transport modes has been effective in bringing railway freight rates in line with costs (excluding statutory rates such as the Crows Nest rate on grain shipments), while providing railways with both the incentive and the returns necessary for new investment and technical innovation. (Heaver and Nelson (1977), pages 323-328) They conclude that commercial freedom has proved workable in promoting efficient transport, competitive pricing and lessened rate discrimination.

To generalize from this example, the scope of regulation needs to be reduced or eliminated when there is potential for dynamic competition between products or services. Financial and brokerage services are examples of areas where regulation is necessary to assure users of the security and integrity of the service. However, regulation should not impede price competition in the provision of the service. In some sectors such as the utilities, regulation is inevitable. There has been a near crisis in regulation of the utilities because of the major adjustments in regulated tariffs precipitated by high inflation, high interest rates, and



increasing real energy prices. At the same time (not surprisingly), there has been increased consumer resistance to regulated price increases. In an analysis of regulatory agencies and their performance, Stanbury argues that consumer interests have been neglected by regulators and that a more clearly defined role for consumer advocacy and input into the regulatory process needs to be developed. (Stanbury (1976))

In providing a role for consumer input, it is important to develop more explicit economic criteria for regulation to avoid increasingly lengthy, costly, and restrictive regulatory processes. A method of rationalizing tariff rate setting criteria to ensure an adequate return on invested capital after accounting for inflation has been proposed by Helliwell and Lester. This method would reduce discrimination against some groups of users/consumers and removes some of the incentives for utilities to overinvest in new facilities. The issue of the incentive effects of alternative regulations has been the subject of recent research in the United States (see Panzar and Willig (1977)). Economic criteria defining the appropriate degree of cross-subsidization and applying marginal cost pricing practices (where feasible), need to be implemented to improve the overall efficiency of regulated industries.

Other areas of regulation range from health and safety standards to environmental controls to weights and measures. These regulations need to be systematically reviewed on an ongoing basis to ensure that the most effective mechanism to achieve the objectives is being utilized.

(b) Implementation

A general framework to guide the review of regulatory practices with deregulation, where feasible, is outlined below.



1. Maximum Deregulation - Where consumers/users have access to alternatives or substitutes, competition should be fostered and the product line or service area deregulated. Removing regulatory restraints on competition, combined with improved competition policy, could significantly increase the scope for deregulation.
2. Residual Regulatory Role - Regulation should be confined to sub-markets where there is obvious and inevitable monopoly power because of technical factors. Apart from the inevitable monopoly market-power in utilities and some other sectors, there are types of market failure such as pollution which will necessarily require some form of public intervention or regulation.
3. Policy Design vs. Administrative Fiat - Direct government regulation or regulation by quasi-judicial tribunals has been a standard response to many complex problems in recent years. Administrative fiats enabled by statutory regulations or flowing from cumbersome case-by-case tribunal proceedings do not always provide the most satisfactory means to achieve social and economic goals. Instead, a more flexible policy design that altered private incentives towards desired objectives might be more efficient in some cases. For example, some environment objectives could be better achieved with a system of taxes and incentives than through direct case-by-case regulation.
4. Reduce Cross-subsidization - Hidden subsidies in the form of required services or production which is uneconomic should be reduced. At a minimum, a service or product should recover its incremental costs or be subject to a direct visible subsidy to make up the difference. This will reduce the need to charge rates in excess of long-run average costs to some users.

5. Consistency for Publicly-owned Enterprises - Canada has a tradition of public ownership in utilities and transportation which reduces some of the regulatory problems and offers benefits in the form of control over research and development, domestic retention of excess profits, and potentially lower cost access to capital. However, there should be consistency in policies for publicly-owned enterprises relative to regulated private enterprises, particularly in the following areas:

- encourage competition where feasible to ensure efficiency;
- coverage of incremental costs for each service (product) to eliminate hidden subsidies;
- pricing of resources and products at their opportunity cost.

### C. Policy Balance Among Sectors

Almost all government policies have differing implications across sectors. However, some measures such as tax incentives or subsidies are designed to alter investment decisions. It must be recognized that using taxation or other policies to channel investment and manpower into a specific activity or industry reduces longer term economic performance.

#### a) Taxation

It is evident that tax concessions for specific industries in the form of accelerated depreciation or lower corporate tax rates changes investment incentives and changes the sectoral pattern of investment. Some industries obtain more capital, others less, than market forces would dictate.

Economists have found that tax incentives in the form of accelerated depreciation allowances or investment tax credits affect the relative cost to the firm of sources of financial capital, of capital investment in plant and equipment, manpower, and other factors. As a consequence, the firms' decisions about the type of technology and relative input requirements have been affected. This has led at least one economist to argue that features of the Canadian tax system result in higher levels of unemployment because the tendency to excess capacity of Canada's protected manufacturing industries reduces the output, expanding effects of the tax incentives (Kierans (1971)). As a consequence, Kierans argued that the substitution effect to reduce labour utilization dominates, leading to lower levels of employment. Since 1971, tax incentives for manufacturing industries in the form of accelerated depreciation and a lower corporate tax rate have been implemented.

In a study of unit costs, the Conference Board found that capital per unit of output (as well as labour) was higher in Canada than in comparable industries in the United States (Conference Board (1977)). In part, this reflects the higher unit costs to be expected in protected industries with few



firms, as discussed previously, but tax policies could be contributing to the problem.

The cost of tax concessions, or "tax expenditures," is not visible as a separate budgetary item and is not subject to annual approval by Parliament. At the time that a tax concessions is introduced, budgetary estimates of the cost are sometimes published for that year. However, no ongoing effort to keep track of the cost of "tax expenditures" is made. Implementation of "tax expenditure" analysis, similar to that recently introduced by the United States Treasury, would be an important first step in improving accountability for tax policies.

The use of tax concessions to bias incentives for investment between industries or between inputs has several shortcomings. It is a form of hidden intervention to subsidize particular activities, the net cost of which is very difficult to determine. In distorting market investment incentives, there is a substantial risk that investment will be diverted into inefficient uses. It may be an ineffective instrument to achieve specific policy goals which is chosen because it is invisible and more politically acceptable than explicit subsidies. It would be better to lower tax rates across all sectors than to continue adding gimmicks and tax incentives to the already complex tax structure. Some of the issues in tax harmonization and guidelines for implementation are outlined in Part Two.

(b) Industrial Policy

The focus of industry policy should be to foster productivity improvement and to improve the effectiveness of market mechanisms. Governments should complement private sector initiatives and confine intervention and support to activities that provide diffuse benefits to many firms and



cannot be organized through a market mechanism. This would include activities like export promotion, research and development, and dissemination of information on production or management techniques.

Industrial policies have often involved subsidies for specific industries or activities. The intent of these policies varies from protectionist desires to strategic or prestige considerations. One rationale for subsidizing specific industries is to offset protectionist policies by trading partners. Unless there is some reason to believe that this protectionist policy in export markets will be changed or could be changed through negotiations, it should be recognized that maintaining the subsidy will have a continuing cost. In assessing alternative opportunities, the ability (and desirability) of a small country such as Canada to offset persistent distortions in the world economy is very limited.

Similarly, the economic costs of maintaining or augmenting certain industries for strategic or prestige reasons needs to be carefully analyzed and considered. Industries such as aerospace tend to be subject to extensive intervention. Perhaps these industries represent a high risk investment which private industry is unwilling to undertake but are a worthwhile gamble when the risks are spread over all Canadians. Perhaps the extent and significance of government procurement in these industries enables the Canadian government to negotiate net benefits for Canada. However, this sort of direct intervention should be the exception, not the norm, and the costs and benefits carefully assessed.

#### D. Regional Policy

The spectrum of programs and policies that is intended to achieve regional policy goals could become substantially more effective; and the trade-offs with primary objectives such as real income growth for Canada as a whole could be reduced; if they were integrated into a coherent federal-provincial industrial strategy.

Lacking such a strategy, regional industrial incentive programs have supported the expansion of protected manufacturing industries in areas of relatively high unemployment. These basic technology, labour-intensive industries are increasingly noncompetitive relative to those of rapidly industrializing, less developed countries with much lower wages.

Despite increasing levels of protection for these industries, the growing cost-competitive gap implies greater vulnerability of these industries and the regions dependent upon them. The recent imposition of quotas and trade restrictions in clothing, textile, and footwear industries reflected a near crisis in the industries arising from the influx of imports from less developed countries. At the same time, DREE incentives have been continuing to encourage investment and to draw manpower into these industries in regions of the country with high unemployment levels. (Langdon (1977) page 39) In these areas, regional incentives have increased the extent of potential dislocation and the magnitude of economic and social costs of adjustment.

This maladjustment, induced by the regional industrial incentives, reflects their interaction with the tariff and non-tariff protection for these industries, not the fact that these industries are labour intensive. In fact, the R.D.I.A. incentives (and the preceding incentives under the Area Development Act) have subsidized capital relative to other production factors. Subsidization has distorted investment incentives (as distinct from

location decisions which the program was intended to alter), resulting in substitution of capital for labour within industries and promotion of heavy industries inappropriate to most areas of high unemployment. (Woodward (1975))

Some of the industries that have been induced to relocate by these incentives, such as oil refineries and heavy water plants, are economically marginal producers in their industries despite the large capital grants that they received. In addition, they often failed to provide suitable employment opportunities for the labour force of the region as they required skilled personnel which had to be recruited from outside the region. As a consequence, the population of the region was increased (or the decrease reduced), the average income increased, and the overall unemployment reduced, but the social and economic adjustment costs for the socio-economic group experiencing high unemployment were not directly reduced. This may reflect a coalition of the local merchant and real property interests, who benefit directly from expansion in total income in the region, and politicians who wish to sustain the size of their constituencies. (Scott (1965))

Recently there has been an increased emphasis upon infrastructure support by DREE to foster regional development. Provincial, regional, or local governments may be subject to financing constraints which perpetuates the relative decline of slow growth regions or impedes the development of sparsely populated areas. If the infrastructure investment is not likely to be utilized sufficiently, then subsidizing infrastructure will be a costly and ineffective means to achieve regional goals. Federal support for infrastructure development could be linked with other measures to equalize fiscal capacity.

#### Implementation

In Appendix I, some of the technical aspects of selecting the most cost-effective means of correcting for



rigidities in labour markets (i.e. minimum wages and/or labour immobility) are investigated. Presumably regional policies (and other policies such as trade restrictions) are intended to expand employment amongst certain groups, but the present policies are costly and ineffective means to achieve this goal. In some areas of high unemployment, an employment subsidy to all firms in the area could be the most effective and least costly means of reducing unemployment. (See Appendix I) If unemployment is the result of the rapid decline of a specific industry, an integrated program of adjustment assistance and industry specific employment subsidies may be required.

To the extent that regional policies (and tariff policies) are intended to redistribute income, this objective could be met more effectively by augmenting earned income for low income Canadians. An earned income supplement could be delivered through the tax system. Such a system would provide incentives for both wage employment or self-employment for all low income Canadians in both service and goods producing industries. To have a visible effect on incentives to accept and to hold employment at wage levels close to the minimum wage, the earned income tax credit could be paid through the payroll deduction system now used to collect income tax and social security contributions. More selectivity in regional policies is needed to support employment amongst target groups. Such support should not impede longer term adjustment and development of regional economies on the basis of comparative advantage.

#### E. Adjustment and Support Policies

##### (a) Adjustment Assistance

Removal of trade restrictions and support policies for specific industries will expand output and employment as well as enhance productivity. However, this will occur on an uneven basis. Some industries will decline, and this may result in unemployment or reduced participation in the work force by



workers unable to obtain alternative employment in their community because of the lack of skills and limited job opportunities. Mobility may not be an option for some who become unemployed because of a combination of factors, including age, family and community ties, language, and occupational barriers. Adjustment assistance policies are required to ease the social and economic burden placed upon these workers during the transition to a more efficient pattern of production. The emphasis of adjustment assistance policies should be to facilitate re-employment of workers who have alternative opportunities while offering support to those who lack such opportunities.

The purpose of adjustment assistance is to minimize short-run social and economic adjustment costs and to facilitate longer-term industrial adaptation and productivity growth. As such, adjustment assistance is an investment for the future to alleviate the cumulative costs of past interventions and to respond to changes in commercial policy, technology, and dramatic shifts in the world economy. If implemented properly, adjustment assistance will reduce intervention in the economy. In the longer term, it is not competing for scarce resources with the private sector. To the extent that workers and/or firms eligible for adjustment assistance would be unemployed or underutilized, the real resource costs of adjustment assistance would be correspondingly reduced.

Firms will also need to adjust as increased competition reduces production of some products and creates new opportunities for production of others. However, direct assistance will not normally be required to enable firms to take advantage of viable new opportunities. Market forces will direct capital to alternative uses, and governments, if they intervene at all, should concentrate on making the adjustment process more orderly through a gradual rather than a single step reduction in a protective tariff or cash support system.

There is evidence that the structure of the Canadian financial system distorts both the mix of assets between consumer and business loans and the flow of funds for business loans between regions. A more competitive financial system could be encouraged through revisions in the Bank Act. By increasing the competition between the chartered banks and near banks, businesses should gain more access to funds generated through private savings. In addition, regions would benefit from a more efficient provision of banking services.

In implementing adjustment assistance programs, it is necessary to decide whether product specialization and/or productivity enhancement within an industry will provide a significant opportunity for adjustment, or whether mobility assistance should be the primary vehicle. Joint federal-provincial sector strategies have to be developed that will select the appropriate emphasis for adjustment assistance. Alternatively, provinces could be allocated funds for adjustment assistance on the basis of "need" and have primary responsibility for implementation.

While there may be an ongoing need for adjustment assistance, specific assistance measures or programs should have a clearly defined time frame. If ongoing support or protection for specific industries, regions, or target groups is considered desirable to achieve social, economic, or redistributive goals, then this support should be in the form of selective subsidies (outlined below). Ongoing support should be distinguished from adjustment assistance.

(b) Selective Subsidies

Subsidies have distinct advantages relative to other hidden forms of intervention such as tariffs and marketing boards. A cash subsidy is visible and must be voted by the legislature. This accountability is important and gives some

assurance that the costs to the economy will not spiral. The explicit cash subsidy will be restrained both by its visibility and overall budget constraints. The cost of tax concessions for specific groups or specific activities should be calculated as "tax expenditures" in order that they can be compared to subsidies.

Another advantage of subsidies relative to hidden intervention is that the losses to the economy are confined to the misallocation of production and do not impose a direct burden upon consumers. Since the former is the objective of most interventions, the subsidy is more efficient.

A third advantage of subsidies is that they can be more selective than other interventions. Instead of imposing a tariff to protect an industry which employs a relatively immobile labour force in areas of high unemployment, a subsidy to reduce the costs of employing certain types of workers (i.e. older workers with more than five years employment in the industry) could achieve the desired objective at much lower total costs. If selective subsidies were implemented in conjunction with a program of adjustment assistance, as outlined above, then workers in areas of lower unemployment or more mobile workers would not have their employment patterns and expectations distorted by broad interventions.

Certain policies are intended to maintain ongoing intervention either to offset other distortions in the economy or to achieve specific social, economic, and redistribution goals. Eliminating hidden interventions and implementing a program of adjustment assistance and selective subsidies will reduce the costs and improve the effectiveness of such policies.



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## Technical Appendix

### Appropriate Policy Intervention in Canadian Factor Markets

For purposes of policy analysis, it is necessary to develop a framework for assessing the costs and benefits of interventions to identify the most cost-effective mechanisms and to develop guidelines for implementation. In this context, it is important to identify the most efficient means of correcting for domestic economic distortions or market failure and of achieving non-economic objectives which are consistent with the longer term adjustment and development of the economy. This appendix outlines some of the implications of recent analysis of policy alternatives for a small open economy (one that cannot influence its terms of trade).

#### a) Policy Analysis

A subsidy is superior to a tariff to correct for domestic economic distortions or to achieve non-economic objectives because the same desired reallocation of production can be realized with a subsidy without imposing the burden on consumers that results from tariffs. The efficiency losses with a subsidy are confined to the misallocation of producer resources. Consequently, the "correct" subsidy is more efficient than tariff measures or trade restrictions. This is a basic result in the analysis of international trade policy which was originally formulated by Bhagwati and Ramaswami (1963).

Further development of this line of analysis concludes that if factor market rigidities give rise to domestic distortions then a factor-specific subsidy will be superior to other means of protection or intervention. (See Johnson (1965), and Lefebvre (1971)). The example that is considered in these studies is that unions, minimum wages, or some other institutional factor cause wage rigidities that distort the allocation of labour between sectors. This can be corrected by

an appropriate wage or employment subsidy which will move the economy towards full employment. Archibald (1972) applies essentially the same type of analysis used in the trade policy context to regional policy and argues that an employment subsidy applied to all sectors in the less dynamic regions will be the most effective means to correct for wage rigidities and/or labour immobility. Essentially, this analysis is based on the presumption that the absence of regional wage differentials or inadequate regional wage differentials causes unemployment in the slower growth or declining regions.

It may be administratively impossible to subsidize the labour input in the rural primary sector, if it is not organized on a wage employment basis, in which case a production subsidy may be used to achieve a similar result. In the absence of other influences, such as risk, there is a potential loss of efficiency with this indirect approach. In the presence of uncertainty, measures such as subsidization of price stabilization or crop insurance may provide the best means of subsidizing labour retention in the primary sector.

A shortcoming of the above analysis is that it fails to consider the dynamic trade-off between the optimal static subsidy to eliminate unemployment and longer-term sectoral and/or regional adjustment. This problem is analyzed by Lapan (1976) in the context of wage rigidity similar to that analyzed by Archibald. He concludes that for short planning time horizons and/or high discount rates the static subsidy is optimal and unemployment is eliminated. As the planning horizon lengthens with a low discount rate, higher levels of unemployment are associated with the optimal adjustment path to ensure the sectoral transfer of labour. The optimal dynamic subsidy is less than the static subsidy and decreases steadily (monotonically) through time, but a residual subsidy remains even with a long planning horizon.



If the regional/sectoral adjustment problem is concentrated amongst a specific population because of some combination of age, sex, educational, occupational, linguistic, locational, and/or cultural factors, then the employment subsidy policy is reinforced. In the case of small communities dependent upon declining primary activities, there may be a combination of locational, infrastructure, and occupational barriers to establishment of new industries. Even if new industries were established, there might be a range of occupational, age, education, and cultural barriers to re-employment as industrial wage labour of a labour force previously engaged in independent primary activities. The lack of regional mobility of such a labour force may reflect occupational barriers as well as community and family ties or institutional factors. In the case of re-employment of workers in declining industries such as textiles, the labour force may be suitable for re-employment in some other industrial activities but not be suitable for re-employment in service activities. In the context of this more disaggregated analysis of the interplay of locational factors with the socio-economic characteristics of the labour force, it becomes apparent that the rigidity in labour markets postulated in the above policy analysis may result from the lack of malleability of human capital as well as, or in combination with, institutional factors.

b) Policy Implications

This analysis of the policy implications of factor market distortions suggests the following conclusions:

- 1) A factor specific subsidy is superior to tariffs, trade restrictions, marketing boards, etc., to correct for factor market distortions.
- 2) In the case of labour market rigidities, a selective employment or wage subsidy which is sector or region specific will be required, depending on the source of the unemployment.

- 3) In designing a selective subsidy, it is important to recognize the trade-off between the social and economic costs of unemployment and longer term adjustment in the economy. It may take a lot of inefficiencies in labour allocation between industries to add up to the loss of output resulting from unnecessary unemployment, but subsidies should at least avoid reversing the inter-sectoral transfer of resources.
- 4) In designing employment subsidies, administrative costs as well as incentive effects must be considered. This point reinforces the need for diagnosis as a guide to policy. If occupational immobility of the labour force in a declining industry is the problem, then an employment or wage subsidy paid to firms to subsidize the employment of older workers who had been employed in the industry for some time would be the best policy. Similarly, an employment subsidy could be paid to firms in a designated region of high unemployment. Alternatively, a subsidy on earned income could be delivered through the tax system which would permit some sensitivity to age and other socio-economic characteristics.
- 5) The above analysis has focused upon labour market rigidities, but there may be distortions in other factor markets such as differences in access to, and cost of, sources of capital by region, sector, and size of firm. However, there are a wide range of programs in place which provide loan guarantees, small business assistance, regional industrial incentives, etc. There may be scope for improving the effectiveness of these programs or increased competition among financial institutions, but there is a clear recognition of the need for selective policies to compensate for distortions in capital markets. The presence of capital market imperfections, in conjunction with labour market rigidities, does not change the conclusion that employment specific subsidies are the most effective policy.

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PART TWO

TAX HARMONIZATION



## TAX HARMONIZATION

### Outline:

I.	Introduction	1
II.	Discussion	5
III.	Conclusions	15





## I. Introduction

1. The dictionary defines "harmonization" as the "agreeable effect of an apt arrangement of the parts". In the context of Canada's tax system, with several levels of government with fiscal authority and responsibility, tax "harmonization" refers to a structure of taxes in Canada which is 'agreeable' or 'encouraging' to industrial growth and development.
2. Tax harmonization ideals or objectives can be suggested correspondingly:
  - a) Commonality of the tax base definitions - Common tax bases provide a means whereby the collection of particular taxes can be administered by a single level of government, removing the duplications in collection efforts. Without common bases, it is also extremely difficult to determine the actual or "effective" inequities in tax treatment between industrial sectors and between regions. Where differential tax treatments can be ascertained, fiscal policies will become more visible, and governments will become more accountable for their measures.
  - b) greater neutrality in taxation between sectors and regions - On grounds of "fairness" alone, a tax policy whereby no sector is singled out for either preferential or discriminatory tax treatment may be advocated. On economic grounds

it may be held that, to do otherwise, "distorts" the location of investment and labour away from its most efficient allocation and hence reduces the productivity of Canada's resources.

- c) federal-provincial agreement with regard to resource levies - As a result of overlapping tax jurisdictions, disagreements over the deductibility of provincial levies for the use of their resources can lead to 'excessive' taxation in the resource industries or uncertainty damaging to investment in those sectors.

Agreements on corporate taxable income in the resource industries needs to be reached in a way that separates out:

- i) 'fair payment' to the provinces for the use of their natural resources, from
- ii) taxation on the return to capital (i.e. Corporation Income Tax).

The difference between the market price of the resource, and the economic cost of extracting or utilizing that resource represents its "value" to the user, and therefore the "price" which that user will pay to utilize the resource. It is this "price" which represents "fair payment" to the province for the use of its resources.

- d) close consultation and co-operation - Given the interdependence between the fiscal activities of the provinces and the federal government, there is a need to achieve close consultation and co-operation in tax matters.

For example, federal revisions of revenue forecasts recently reduced British Columbia's tax returns by \$122.2 millions. In order to meet the Province's original objective of a balanced budget for the 1977 fiscal year, Provincial ministries needed to reduce spending in mid-year. Better consultations (or forecasts) would ease difficulties encountered in the planning of Provincial budgets.

There is also a need to avoid the type of competition between governments that attempts to develop economic activities in some regions to the detriment of other regions.

- e) fewer tax changes - In the short run, given the current climate of investor uncertainty, major tax reforms and/or frequent tax changes are to be avoided.

3. The objectives enumerated above however, are only suggested as ideal directions for policies.

It is recognized that meeting such objectives will involve significant co-operation and adjustments by all governments. The obstacles are numerous.

First, meeting the objectives may involve significant expense to some sectors and some governments.

Second, a certain amount of differentiation in tax treatment between sectors and regions will undoubtedly remain as a reflection of provincial sovereignty - i.e. as a reflection of the different beliefs or preferences of the provincial governments. It is clear that differences between the 11 governments with regard to:

- a) economic objectives,
- b) economic interpretations, and
- c) economic strategies,

will restrict the scope for resolution of the harmonization objectives.

4. Finally, the achievement of tax harmonization may be difficult because of conflicts inherent in the objectives themselves. For example, as Peter Pearse states,

*" . . . fiscal arrangements must often be complicated in order to equitably and consistently cover a wide variety of circumstances . . . . It is also desirable that public charges be as simple as possible, not only in the interests of economy in public administration but also to enhance public understanding of policy."*<sup>1</sup>

In short, attempts at simplifying tax measures through the adoption of common tax bases may be overruled by the need to tailor tax measures to meet particular economic objectives.

5. Tax harmonization along the lines outlined above, therefore, cannot be viewed as a set of rigid norms which can be achieved with precision. Instead, calls for tax harmonization should seek federal-provincial agreement that the following directions for tax policies are desirable:

- a) greater neutrality or equity in tax treatment between sectors;
- b) fewer tax changes; and
- c) greater visibility where programs are explicitly designed to achieve regional economic objectives.

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<sup>1</sup> Peter H. Pearse, Timber Rights and Forest Policy in British Columbia, Vol. I, (Queen's Printer, Victoria, 1976), p. 158.



## II. Discussion

1. As of May 1, 1977, the rates in effect for the four major taxes in the provinces were as follows:

### I. Tax Rates in the Provinces

	<u>Prov. Income Tax (% of Federal Tax)</u>	<u>Sales Tax<sup>C</sup></u>	<u>Gasoline Tax</u>	<u>Tobacco tax per Cigarette</u>
Newfoundland	57.5	10%	27¢	1.2¢
Prince Edward Island	50.0	8%	21¢	0.8¢
Nova Scotia	52.5	8%	21¢	0.6¢
New Brunswick	54.67	8%	20¢	0.4¢
Quebec	a	8%	19¢	0.8¢
Ontario	44.0 <sup>b</sup>	7%	19¢	0.96¢
Manitoba	56.0 <sup>b</sup>	5%	18¢	0.8¢
Saskatchewan	58.5 <sup>b</sup>	5%	19¢	0.8¢
Alberta	38.5 <sup>b</sup>	nil	10¢	0.32¢
British Columbia	46.0 <sup>b</sup>	7%	17¢	0.48¢

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- a. Quebec's rates under its own schedule range from 0% to 28% of taxable income.
  - b. Ontario, Manitoba and British Columbia levy no income tax on low-income taxpayers who are subject to no federal tax because of the tax cuts. Saskatchewan provides a flat tax cut of \$120. Alberta provides tax cuts for taxpayers whose taxable incomes are under \$3,958.
  - c. Differential higher rate of 10% applied to alcoholic beverages in Ontario and Manitoba and in Prince Edward Island and to higher-priced meals in Quebec and Ontario.

SOURCE: Canadian Tax Foundation, Provincial and Municipal Finances (Canadian Tax Foundation, Toronto, 1977) p. 31.

As shown, there are significant differentials in the tax rates for all four tax sources.

2. In addition, there are significant differentials in the rates of corporate income tax levied by the provinces:

## II. Corporate Tax Rates of the Provinces

<u>Province</u>	<u>General Rates</u> <sup>1</sup>	<u>Legislation</u>
Newfoundland	14%	The Income Tax Act R.S.N. (1970)
P.E.I.	10%	The Income Tax Act R.S. PEI (1974)
Nova Scotia	12%	The Income Tax Act R.S.N.S. (1967)
New Brunswick	10%	The Income Tax Act R.S. N.B. (1973)
Quebec	12%	The Taxation Act S.Q. (1972)
Ontario	12%	The Corporations Tax Act S.O. (1972)
Manitoba	15%	The Income Tax Act (Manitoba) R.S.M. (1970)
Saskatchewan	12%	The Income Tax Act R.S.S. (1965)
Alberta	11%	The Alberta Income Tax Act R.S.A. (1970)
British Columbia	15%	The Income Tax Act S.B.C. (1962)

SOURCE: Statistics Canada, Principal Taxes in Canada  
(Statistics Canada, Ottawa.)

Note also in Table II that Ontario and Quebec administer their own provincial corporation income taxes. Although the other provinces have the constitutional right to levy their own corporate income tax, they have opted to have the federal government administer and collect the tax on their behalf using the standard concepts and definitions as laid out in the federal Income Tax Act (Part I).

3. As noted above, there are significant differentials in the rates of corporate income tax between the provinces. These differentials are perhaps limited by the fears of competition between the provinces and the economic implications of having taxation levels too much out of line with neighbouring regions.

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1. Ontario, Manitoba, and British Columbia have reduced rates for 'small business' of 9%, 13% and 12% respectively. Federal tax credit is 10% of corporate income tax base.

The primary rationale for maintaining some differentials or a separate collection arrangement appears to be that it allows the province to institute a provincially-administered incentive scheme and tax system. For example, Alberta notified the federal government in early 1974 that it was considering termination of the existing corporation income tax collection agreement and in 1975 produced a Business Taxation and Incentives Position paper on ways to aid small business and promote secondary industry. Quebec operates an investment incentive scheme for small and medium-size manufacturing businesses.

The primary arguments against such independence are based on the belief that it substantially raises both the costs of compliance and administration, and that, with a plethora of individual corporate systems, business uncertainty is increased.

4. It should also be apparent that, while corporate taxes are the most important general provincial tax on companies, there are other, additional differences in the tax treatment of businesses in the provinces:

### III. Other Forms of Company Taxation

<u>Province</u>	<u>Tax</u>	<u>Form of Tax</u>
Quebec	"Place of Business"	- applies to companies in certain locations, \$50 per company
Quebec, Ontario, Manitoba, B.C.	Corporation Capital Tax (General Paid-up Capital <sup>1</sup> )	Quebec (1/5 of 1%) Manitoba (1/5 of 1%) British Columbia (1/5 of 1%) Ontario (3/10 of 1%)
All Prov- vinces except Alberta	Retail Sales Tax on sales of 'Tangible <sup>2</sup> Personal Property'	- range from 5% in Manitoba and Saskatchewan, to 8% in Quebec and the Maritimes, to 10% in Newfoundland.

- 
1. "Paid-up-capital" means not only the amount received by the company as its issued stock (i.e. its equity), but also on its surplus, long-term debt, short-term debt, and all reserve funds (i.e. its financing structure).
  2. Exemptions for production machinery, production consumables and processing materials are becoming the norm. Building material purchases are much less uniformly handled.

5. Where the provinces have chosen to treat certain regions or sectors within their jurisdictions favorably, tax differentials may also arise *within* the provinces. It is this sort of claim which is made when the mining industry, the forest industry, the petroleum industry, or insurance companies suggest they have been "singled out" for deprecatory treatment. In these cases, it is often a case of unravelling provincial legislation specific to a sector, distinguishing between 'effective' and 'nominal' taxation of sectors, and examining the purposes behind the legislation. Tax revisions at this level are, admittedly, costly and take some time to produce.
6. From the above, it is apparent that there is a significant degree of differentiation in both tax rates and tax base definitions at the provincial level.
7. Differential tax treatment also exists within Canada to a significant degree as a result of the following federal policies:
  - (a) special provisions based on *the type* of industrial activity involved;
  - (b) special provisions based on *the regional location* of activity;
  - (c) disagreements with the provinces over the appropriate levels of *payments to the provinces for the use of their resources*.

These provisions are examined in turn below.

8. Tax differentials based on type of industrial activity are as follows:
  - (a) Manufacturing and Processing Industries:

For those corporations in Canada qualifying, there is a straight tax reduction of 6% of federal corporate tax on the companies manufacturing and processing 'taxable income'. As a result, the top rate of



federal corporate income tax applied to this income is reduced to 30%. There are also provisions for the fast write-off (2 years), of machinery and equipment for use in manufacturing and processing industries.

(b) Small Businesses:

For private Canadian-controlled small businesses, the rate of corporate tax is 25% on the first \$150,000 of income. If such a business is also involved in manufacturing and processing, there is a tax reduction of 5% of the company's 'taxable income'. Thus, the top rate of federal income tax applied becomes 20%.

(c) Investment Tax Credit:

Corporations in the following sectors:

- manufacturing and processing
- petroleum and mining
- logging, farming, fishing and grain storage
- the production of industrial minerals

qualify for 5 percent investment tax credit. The program applies to qualified investments made up to and before July 1, 1980. Qualifying investments include:

- the costs of new buildings, machinery and equipment;
- current and capital expenditures on scientific R & D.

These costs are fully deductible from tax in any given year to the extent of:

1. \$15,000 of federal tax liability
2. one-half of the federal tax liability in excess of \$15,000. Any balance of credit not claimed in a year may be carried forward for five years.

(d) Mining and Petroleum Industries:

The special provisions for companies in the mining and petroleum (oil and gas) sector include:

1. accelerated depreciation;
2. resource allowances;
3. deductions for debt interest, and Canadian exploration and development expenses;
4. earned depletion.

9. Regional benefits are also extended through investment incentives and investment tax credits.

Under the federal government's Regional Development Incentives Act (RDIA) passed in 1969, firms starting a new manufacturing or processing operation, or expanding or modernizing an existing one could qualify for industrial incentives. The grants, or subsidies, were related to the size of the capital investment, the expected employment creation, and the region concerned. Special Areas (SA) were designated under the program.

The 1978 Budget will 'regionalize' the investment tax credit program outlined above so that the rate of tax credit varies by regions. In the special areas under the RDIA in Saskatchewan, Manitoba, North Ontario and Quebec Province (other than the Gaspé) the tax credits will be 7½ percent. In the Atlantic provinces and the Gaspé regions, the tax credit will be raised to 10 percent.

10. There is also a question of the extent to which resource industries receive differential tax treatment.

In the 1975 Budget Speech, when the latest (1976) provisions were introduced, John Turner, the Federal Minister of Finance, stated the following:

"My purpose is to accomplish two main objectives . . . I wish to meet, at least in part, the request for some form of deductibility in the tax system for provincial resource levies. Provinces have been seeking a more direct and tangible recognition of their special position in respect of resources. Industry has been seeking recognition of such payments as a business expense. Second, I wish to offer more incentive to those who explore and develop in Canada, and to impose a greater tax liability on those who do not."

Under the new 1976 system, the basic federal corporate tax rate applicable to resource production profits (allowing for a 10% provincial abatement) was to be 36%, "... the same as that applying, to most other corporate activity".

'Special' provisions, however, remained. The resource allowance was to be an 'extra' deduction from income equal to 25% of production income from petroleum or mineral resources. "Production income" is calculated after operating expenses and capital cost allowances (including a provision for accelerated depreciation) but before interest, exploration and development, and earned depletion.

The resource allowance is an attempt by the federal government to recognize in "a practical way", that the provinces, "in one way or another", impose taxes and royalties - and to take that fact into account "within reasonable limits" in determining taxable income. There is still a problem where corporate taxes have been effectively raised by the non-deductibility of provincial levies. To the extent that the federal government's

resource allowance is not sufficient to allow for full deductibility of the resource rents of the provinces, either the provinces will be deprived of this income, or elements of "double taxation" will be imposed on those industries.

11. As shown, therefore, there are significant differentials in tax treatment between sectors and regions in Canada. These differentials have emerged as a reflection of:

- (a) the different preferences, strategies, and objectives of governments in Canada;
- (b) the imbalance between the revenue-raising capabilities of the provincial governments, and their spending responsibilities;
- (c) preferential treatment of regions and sectors at the federal level;
- (d) provisions for the resource industries.

12. Because labour and investment are mobile<sup>1</sup>, particularly within the North-American community, taxes in the regions of Canada (both corporate and personal) cannot move too much out of line with competitor regions in both the rest of Canada and North America. If Canada or the regions in Canada attempt to maintain tax burdens significantly greater than in other regions of North America, in the longer term (other things being equal), capital investment will migrate away from those regions to the detriment of economic growth.

*Because of such constraints, tax burdens within Canada cannot afford to differentiate significantly from tax levels elsewhere, particularly those in the United States..*

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1. Note: Money capital or new investment is the most mobile. Other things being equal, new investment is likely to be extremely sensitive to long-term differentials in net tax burdens between regions. Labour is much less mobile, and high tax burdens can translate into demands for higher wages which if successful, can also act to the detriment of attracting new investment.



There are obviously a large number of other influences on the location of investment funds, some of the more important being:

- (a) availability of resources and other factors (these determine gross rate of return possibilities within regions);
- (b) government expenditures (particularly government services which affect the rate of return to capital);
- (c) ability to shift corporate taxation away from capital (i.e. to consumers, or other factors).

13. Within these international constraints, tax harmonization within Canada should embrace the principle of neutrality, in tax treatment between regions and sectors more fully. The principle follows from the philosophy that, in the long run<sup>1</sup>, most efficient use of Canada's resources (i.e. the maximum physical output) will follow if the movement of investment and labour within Canada is freed from interventions by governments.

With regard to investment, government interventions in the form of preferential tax treatment (or subsidies) give 'artificial' support to capital, pulling it into areas where its productivity is less than that available elsewhere, and therefore reducing its potential contribution to the total output of the economy.

Further, to ensure that in the actual process of practical decision-making at the political level, discriminatory or arbitrary fiscal measures are avoided, differential tax policies designed to protect developing industries, to aid depressed areas, or to offset other disadvantages, should be made visible and comprehensible to the public.

- 
1. Note: it should be recognized that in the short run, transition to a policy of greater neutrality will involve adjustment costs to those currently receiving preferred treatment.

14. Since 1970, Canadian fiscal policy, in an effort to stimulate sagging investment in the manufacturing and processing industries' sectors, has been substantially eased in favour of these sectors. At the same time, there has been little explanation of why other sectors have been excluded from such preferential treatment.

That omissions are often arbitrary is evidenced, by the fact that, until the federal government's recent Supplementary Budget of March 31, 1977, certain investments in the resource industries were excluded from qualifying for the federal government's Investment Tax Credit. Investments now within the coverage of the tax credit include logging trucks weighing over 16,000 lbs. and assets used primarily for the production of industrial minerals, such as equipment for extracting sulphur as part of gas processing and equipment used in the aggregates industry - crushers, loaders, graders, conveyor belts, etc.

15. Such selective policy changes have also worked with significantly different regional impacts. For example, the Economic Council recently concluded:

"By 1973, the easing of fiscal policy initiated in 1971 appears to have had the greatest effect in Ontario, followed closely by Quebec. The Prairies and the Atlantic region were next, with British Columbia being least affected."<sup>1</sup>

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1. Economic Council of Canada, Living Together: A Study of Regional Disparities ( Queen's Printer, Ottawa, Canada, 1977), p. 102

Conclusions:

1. Calls for tax harmonization should seek federal-provincial agreement on the following directions for tax policies:
  - (a) greater neutrality or equity in tax treatment between sectors;
  - (b) fewer tax changes;
  - (c) greater visibility where programs are explicitly designed to achieve regional economic objectives.
2. Within the limits imposed by the tax policies of competing regions in the United States and abroad, tax harmonization should allow some differentiation in tax policies at the regional level as a reflection of the different objectives, preferences, and strategies of different governments.
3. Disagreements over the deductibility of provincial levies for the use of provincial resources in the payment of federal taxes should be resolved a way that:
  - (a) ensures 'fair payment' to the provinces for the use of their natural resources;
  - (b) minimizes federal-provincial disagreements which increase uncertainty and are damaging to investment in those sectors.
4. Tax harmonization should be predicated upon a better balancing of the revenue-raising capabilities of the provincial governments with their spending responsibilities.





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## REGIONAL ECONOMIC ACCOMMODATION





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## REGIONAL ECONOMIC ACCOMMODATION

### INTRODUCTION

Throughout the proposed guidelines for a National Economic Strategy, one theme has been repeatedly stressed: the need for a greater regional role in national economic policies. While increased regional autonomy is sought in some areas, emphasis is simultaneously laid on the need for consultation to ensure the harmonization of policies among governments. Each of these policy proposals seeks more effective working relationships between the senior Canadian governments which are flexible to accommodate regional differences.

This paper suggests reforms to Canadian economic decision-making at three stages:

- (i) the formulation of national economic policy;
- (ii) the collection, analysis and application of economic information and research; and
- (iii) the implementation and administration of national economic policy.

At each of these levels, certain aspects of economic policy-making have been of concern to the provinces. During the first stage, the policy formulation process and forums for federal-provincial consultation are often unstructured and unco-ordinated. As well, effective consultation is not guaranteed at the policy formulation and program implementation stages in areas of joint government interest. The problems of federal-provincial consultation are also affected by the availability of national economic information and research. Both the structure of national economic data and the output of the Economic Council of Canada have been areas of concern. Together, these factors affect the final stage of policy implementation and administration. There is often inadequate

federal-provincial assessment of regulatory policy, both within the government structure and in separate agencies and crown corporations. As well, since regulatory agencies often fail to properly respond to public or consumer interest, accountability or control may be lacking.

Part I examines the existing system of forums for federal-provincial consultation and negotiation. The conclusion that more co-ordination in inter-governmental relations is desirable is supplemented by suggestions for procedural reform of negotiating forums. Recognition of the many areas of concurrent interest and adherence to the outcome of consultation is considered important. Areas of federal-provincial concurrent interest should be formally recognized and accompanied by some formal obligation for intergovernmental consultation in these areas.

Part II of this paper deals with the nature of the economic data and research which help to shape economic policy decisions in Canada. Specifically, the availability of economic data and research in Canada is studied as is the research carried out by the Economic Council of Canada. Specific reforms are suggested to improve this stage of policy making.

Finally, Part III examines some of the federal agencies which undertake regulation of the Canadian economy. Included in this discussion are the Canadian Transport Commission, the National Energy Board, the Petroleum Compensation Board, the Tariff Board, the Anti-Dumping Tribunal, the Export Development Corporation and the Bank of Canada. Bearing in mind the recommendations included in the Industrial Strategy, this section examines the regional impact of these agencies and suggests methods by which input from the provinces can be ensured.



These three sections do not attempt to deal with all the problems associated with economic policy making processes in Canada. However, these papers do highlight some of the principal problems and suggested solutions in selective areas. The intention, then, is to provide background material which serves illustrative purposes, rather than providing a complete, general analysis.

The final section of the discussion of regional accommodation summarizes the specific and interlocking recommendations following from the three studies. While specific reforms can be suggested for each stage in the economic policy process, there are also important linkages between these levels. Thus, reforms to strengthen these linkages are equally important.

## Part I

### FEDERAL-PROVINCIAL CONSULTATIVE FORUMS

The Canadian federal system as it exists today has gradually evolved from the classical form of federalism and clearly defined jurisdictions described in the British North America Act of 1867. Increasing government responsibilities and government interdependence have led to a situation where jurisdictions are not clearly defined and overlap while the actions of one government affect other levels and require their support. These developments have prompted increasing inter-governmental contact and consultation so that executive or co-operative federalism has come to characterize the Canadian political system.

#### A. FORUMS FOR CONSULTATION AND NEGOTIATION

Description of the expansion of intergovernmental contact supports the view that "co-operative federalism is in essence a series of pragmatic and piecemeal responses by the federal and provincial governments to the circumstances of their mutual interdependence."<sup>1</sup> Since World War II, a range of negotiating forums have emerged to meet the need for co-ordination of and co-operation in policy-making. Initially programme collaboration dominated government co-operation although, in the early 1960's, agencies and channels for intergovernmental negotiation of fundamental policies developed. The appearance of new consultative forums has occurred largely without legal or constitutional action. Rather, consultation has originated in the form of ad hoc committees to meet specific needs. Although these forums have become more structured through continued use, the system has grown in response to individual demands to the exclusion of the total requirements of the system.

The present structure of intergovernmental consultation is diverse both in form and impact. The formal machinery of contact includes commissions, councils, conferences and other institutions at the ministerial and administrative levels while

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1. Donald V. Smiley, Constitutional Adaptation and Canadian Federalism Since 1945, Ottawa: Queen's Printer, 1970, p. 111.

the issues covered range from broad government policy to specific technical issues. Given the present complex network of intergovernmental relations (see tables 1 and 2), it is useful to distinguish between these forums by participation.<sup>1</sup>

#### 1. FEDERAL-PROVINCIAL COMMITTEES

Although public awareness of federal-provincial conferences is often limited to the meetings of the Prime Minister and Premiers, there are a wide range of federal-provincial consultative forums functioning in Canada today. All federal-provincial bodies are composed of ministers and/or officials from federal and provincial governments. Although these conferences tend to be national in scope, some forums are regional with representatives from only the federal and certain provincial governments, (e.g. Atlantic Fisheries Committee).

Often considered the standard type of consultative forum, these bodies vary substantially in areas of concern, and operation.

##### (a) Topics of Discussion

Federal and provincial government representatives meet to discuss matters of mutual concern ranging from broad policy questions to technical and highly specialized issues. There is no specific agreement about the range of issues requiring consultation. Collaboration is generally regarded as appropriate in areas of joint responsibility (e.g. agriculture) as well as in cases where the actions of one government clearly affect the others (e.g. finance). As a result, intergovernmental consultation occurs on either an ad hoc or a continuing basis in most areas of government responsibility.

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1. Edgar Gallant, "The Machinery of Federal-Provincial Relations", Canadian Public Administration, Vol. VII, No. 4, December 1965, pp. 515-26.



While ministerial meetings tend to concentrate on general policies, specialization of concerns is more typical of government interaction at the administrative level. Interaction among federal and provincial officials often focuses on cost-sharing programmes and the communication of technical information. As well, administrative meetings often prepare work for and upon the instruction of ministerial conferences (e.g. development of policy alternatives, formulation of agendas and communiques and detailed discussion of proposed agreements). One such group of consultative forums is the annual meeting of Finance Ministers supplemented by the work of senior officials in the federal-provincial Continuing Committee on Fiscal and Economic Matters and official co-operation at the level of specific programmes.

(b) Organization

The federal government usually acts as the co-ordinator and chairman of federal-provincial conferences. The Prime Minister chairs the annual First Ministers meetings while federal ministers perform the same role in their areas of responsibility. In the capacity of chairman, federal ministers are responsible for convening conferences and determining agendas.

Federal-provincial committees have been established with varying degrees of formality although most lack formal statutory existence and depend on the participation of individual governments for their continued existence.

- (i) Some forums are continuing consultative bodies with regularly scheduled meetings. As a result of this continuity, these committees tend to develop an institutional character. The federal-provincial conference of the Prime Minister and Premiers meets regularly as do the Finance and other ministerial forums.
- (ii) Other committees are not given such a formal identity and meet on an ad hoc basis as issues arise.
- (iii) A third type of committee or task force are those forums formally established by order-in-council or ministerial decree to perform a limited task. These committees are



terminated upon completion of assigned work. The tax structure committee convened to study intergovernmental financial arrangements has such a limited existence as do task forces of assistant deputy ministers studying income maintenance, transportation and urban affairs.

The circumstances of federal-provincial discussions are often unclear with questions arising as to whether federal-provincial discussion should precede or follow the introduction of legislation to Parliament. No formalized procedures exist for terminating debate and establishing consensus in federal-provincial negotiations. Voting on the issues of discussion does not generally occur. Finally, federal-provincial forums are not binding decision-making bodies. Decisions reached with the agreement of the various government participants require ratification by the respective governments before constituting an obligation to act.

(c) The Canadian Intergovernmental Conference Secretariat (CICS)

The CICS performs many useful administrative and organizational functions in the form of secretarial and conference services for federal-provincial meetings. Services provided by the secretariat include pre-conference correspondence with delegates concerning conference arrangements and agendas, preparation of conference transcripts and summary statements, organization of media relations, distribution of conference documents and maintenance of conference records for subsequent reference and distribution. The CICS is not responsible for gathering information or undertaking research.

Established as a result of similar work for the federal-provincial Constitutional conferences (1968-71), the conference secretariat is responsible for all First Ministers meetings as well as being available to provide services and facilities for meetings of ministers, deputy ministers and officials. Although located in

Ottawa, the secretariat serves conferences anywhere in the country. Funding is the joint responsibility of the Federal and all provincial governments.

## 2. FEDERAL ADVISORY COUNCILS

Several committees are presently functioning under federal statute or order-in-council as advisory bodies to the federal government. Federal advisory councils can be described as intergovernmental consultative agencies by virtue of provincial representation on these boards. Some of these groups have only official government representation while others include both government officials and representatives of private organizations.

By including provincial representatives, council decisions may reflect provincial concerns. Recommendations subsequently made to federal ministers by advisory councils indicate agreement by provincial representatives who then advocate acceptance of these policies in their own provinces.

The Dominion Council of Health established in 1919 is one of the oldest examples of federal advisory councils. Other examples include the National Advisory Council on Rehabilitation of Disabled Persons, the Technical and Vocational Training Council and the National Council of Welfare.

## 3. QUASI-INDEPENDENT ASSOCIATIONS

These bodies are composed of ministers and civil servants and, although supported by government, function relatively independently. In this way, they approximate professional organizations or interest groups. The stimulus for action comes largely from within the organization itself while the participant's role is one of association member rather than government representative. By encouraging contact and discussion, these associations contribute to intergovernmental consultation.

The Canadian Association of Resource and Environment Ministers can be described as a quasi-independent organization. This council was organized in 1962 with its own secretariat and letters patent. As a body, it has no formal powers. Consequently, its goals are oriented to problem resolution through co-operative information gathering and research rather than policy determination.

The Canadian Association of Administrators of Labour Legislation and the Association of Canadian Fire Marshals are similar organizations.

#### 4. INTERPROVINCIAL COMMITTEES

Interprovincial committees are consultative bodies of a fairly regular structure convened for the purpose of considering matters of basic interprovincial interest.

##### (a) Membership

Consultative forums at the provincial level are composed of ministerial and/or administrative representatives of the provinces. Best known of the interprovincial meetings are the annual Premiers' conferences. Many interprovincial meetings have been held at the ministerial and official levels as well. Provincial ministers responsible for mines, finance, education and welfare meet regularly.

In addition to meetings of the ten provinces, consultative forums have been established at the regional level. Quarterly meetings of the Council of Maritime Premiers facilitate inter-provincial consultation as do the annual meetings of the Western Premiers Conference.

While federal representation is officially absent from interprovincial discussion, national observers from the Department of Federal-Provincial Relations and Finance are sometimes in attendance.



(b) Topics of Discussion

Convened to discuss matters of mutual concern, inter-provincial forums are an important means of exchanging information and experience and developing joint approaches for consultations with the federal government. Initially the Premiers' meetings were designed to facilitate the exchange of information and co-operative efforts in such areas of provincial jurisdiction as education, hospitals and retail sales tax. However, since 1966, the areas of focus have increasingly concentrated on national issues (e.g. pollution, off-shore mineral rights, energy policy and economic policy). Since 1972 resolutions adopted at the Premiers' Conferences have been forwarded to the federal government so that interprovincial conferences have become an important vehicle for communicating provincial views to the federal government.

The scope of topics covered by recent Western Premiers' Conferences has included federal transportation policy, federal-provincial fiscal arrangements, shared cost programmes, patriation of the constitution, agricultural stabilization and co-ordination of western economic policies.

(c) Organization

Supplementing the policy discussions of ministerial meetings are a number of officials meetings. Below the first ministers level, and often acting on their instructions, are a number of ministerial and official committees. One such task force reported to the Western Premiers in 1977 on the issue of federal intrusions into areas of provincial jurisdiction.

Responsibility for organizing and chairing the conferences is rotated amongst the provinces. The Canadian Intergovernmental Conference Secretariat is available to assist with conference preparations and organization.



## 5. PROVINCIAL ADVISORY COMMITTEES

Several provincial committees with federal representation have been created to advise provincial ministers on matters of federal-provincial concern. Although formed and chaired by provincial authorities, advisory councils may be established as a result of federal proposals. These councils resemble those at the federal level in form and procedure. Examples of provincial advisory committees are co-ordinating committees on Indian Affairs and the Agricultural Co-ordinating Committees functioning in some provinces.

## 6. SUBCOMMITTEES

Supplementing the work of federal-provincial and interprovincial agencies are a second level of committees. These subcommittees are usually established at a technical level to report directly to other more general committees. Several subcommittees perform such support functions for the Dominion Council of Health.

## 7. NON-GOVERNMENT ASSOCIATIONS

These independent organizations function in a manner resembling the work of quasi-independent associations. These groups may, but will not necessarily, have a large government membership although the issues of concern will tend to relate to government activity. Through discussion of these concerns non-government organizations may influence government policy. The Institute of Public Administration of Canada was instrumental in arranging an interprovincial agreement for the exchange of civil servants. The Canadian Good Roads Association has also had an input into government policies.

The consultative functions of these seven types of intergovernmental conferences and committees are supplemented by informal day-to-day contact at both the ministerial and administrative levels. Bilateral meetings have become increasingly frequent, a notable example of which are the recent meetings of the Prime Minister with each provincial Premier. Informal contact through meetings or by telephone are in many ways more important than consultative conferences as discussion is immediate, informal and unhampered by prestige considerations. Such communication is facilitated by the length of time governments have been involved in common programmes and in specialized or professional areas of activity.

#### B. EVALUATION OF THE EXISTING SYSTEM AND RECOMMENDATIONS FOR CHANGE

Description of the prominence of intergovernmental contact in Canada supports the view that "co-operative federalism" is a gradual, practical response to government interdependence. This system of consultative forums is, for the most part, a valuable instrument of regional accommodation and is best-suited to meet the demands of joint government responsibilities and concerns.<sup>1</sup> The present, relatively informal network of conferences and committees has achieved agreement on the formulation of a number of important general policies and more specific technical agreements.

- 
1. Suggested alternatives to the present system of co-operative federalism include the assumption by the judiciary of a more active role in determining the powers and responsibilities of the levels of government. Such a role was performed by the Judicial Committee of the Privy Council prior to World War II. A second option of assigning responsibility for resolution of federal-provincial jurisdictional disputes to an independent body distinct from the judiciary has also been suggested. However, these two alternatives would not serve the interests of British Columbia nor would they encourage co-operative intergovernmental relations. The problems associated with such an approach became particularly apparent with the Supreme Court rulings on Saskatchewan's resource tax and cablevision in Quebec.

Revisions to the Senate and various regulatory agencies might serve some functions of consultative forums (e.g. the input of provincial interests to federal legislation) although these forums can only supplement the important consultative mechanisms of intergovernmental conferences and committees.

However, from the viewpoint of provinces attempting to use these mechanisms as channels for input and consultation, federal-provincial conferences have several weaknesses. Complicating the effective functioning of intergovernmental liaison is the fact that responsibility for convening and chairing conferences rests with the federal government. As many ministerial and officials' meetings occur only on an irregular basis, there is no means of ensuring that meetings are held as required. The federal government, as conference chairman, is also responsible for setting agendas. From a provincial viewpoint, negotiating forums are often subject to criticism concerning the timing of discussion. Consultation, in some cases, takes place after rather than before the introduction of federal legislation to the House of Commons. As well, the federal government is under no obligation to consult with the provinces on policies which, although technically not an area of concurrent jurisdiction, affect the provinces and their interests. Finally, no means exists whereby governments are obliged to accept or be influenced by the results of intergovernmental consultation. Provincial dissatisfaction has often been expressed with federal receptiveness to provincial viewpoints.<sup>1</sup>

Recognition of the value of consultative forums as an instrument of regional accommodation combined with an awareness of attendant problems leads to the conclusion that, rather than recommending a complete overhaul of the existing network, certain changes should be made to refine the existing processes. In general terms, the basic problems of existing consultative forums are ones of structure and support as opposed to volume. Unlike regulatory agencies, the mechanisms for consultation are not lacking in most cases. Rather, the opportunities for consultation and input are not efficiently

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1. This viewpoint became apparent through surveys undertaken as part of the Report: Intergovernmental Liaison on Fiscal and Economic Matters (Queens University, Institute of Intergovernmental Relations, 1968).



utilized. Failure to effectively utilize existing forums may be attributed to a lack of systematic organization and procedures and to the attitudes of federal and provincial governments to the responsibilities of co-operation.

## 1. ORGANIZATION

Consultative forums have been established in response to individual demands with no concern for co-ordination, systematic procedures or long-range needs. In past years, there has been a proliferation of conferences. New problems and issues have tended to precipitate the formation of new committees. In this way, the present system has developed as a series of ad hoc responses with no formal structure or continuity. While it is recognized that one of the strengths of the present system is its adaptability through informality and innovative ability, some co-ordination of existing mechanisms is necessary. Such co-ordination would facilitate recognition of common concerns and provide the scope for joint government action while recognizing the different needs of various functional areas and avoiding unnecessary proliferation of forums.

### a) Conferences and Committees:

The organization of federal-provincial conferences must, first of all, complete a structural process which has already begun in some areas. Existing mechanisms of consultation must be organized around the work of the First Ministers Conference. This forum is central to the consultative process. Therefore discussion should focus on general policies and long-range goals. Supporting the work of the First Ministers conference must be a series of continuing ministerial forums in specific functional areas. These areas will probably correspond with existing ministerial categories. Continuing ministerial committees should be established in the many areas of concurrent federal-provincial interest. Steps were made in this direction with the establishment of regular meetings of Finance and other



ministers. However, other areas of government concern continue to be handled on an irregular basis.

Continuing ministerial committees responsible for general policy determination in their respective areas must, in turn, be supported by specialized groups and subcommittees. Deputy ministers as well as groups of senior officials can play an important role in research and discussion of specific concerns, technical issues and unforeseen problems. This structure of ministerial and officials conferences has been achieved in some areas but remains to be established in all areas of concurrent interest.

Central to this co-ordinated structure is the need for a system of review and evaluation of federal-provincial forums which would revamp or eliminate unnecessary or ineffective bodies. In the past, there has been a proliferation of technical committees and subcommittees with no means of ensuring that these bodies serve a purpose or function efficiently. This situation was recognized by provincial health ministers at their meeting in September 1977. Over fifty separate federal-provincial committees are functioning in this area. The need for co-ordination is similarly apparent in many other areas of intergovernmental consultation.

Attempts by provincial health ministers to correct this trend to proliferation led to consideration of the establishment of a permanent secretariat to act as a channel for the exchange of information on health concerns. While such a secretariat would systematize the exchange of information, the establishment of such a body in each functional area is not always necessary nor desirable. Similar objectives could be achieved by a continuing committee of deputy ministers in each functional area whose responsibility it would be to define topics requiring technical study or discussion by committees of officials. It is important that each technical committee be established with a specific, clearly-defined function and an operating life limited to the period necessary to fulfill

its terms of reference. The work of these committees must also be regularly reviewed to ensure continuing effectiveness and to avoid unnecessary proliferation of committees. This system of review and evaluation might be supplemented by public awareness of the agendas and accomplishments of the various conferences.

Attempts to review intergovernmental consultation should also include the recognition that certain issues may be of concern to more than one functional area. Thus, efforts must be made to avoid duplication of tasks or conflicting policy directions between federal-provincial committees. Recognition of areas of interdependence between conferences might best be achieved by that branch or department of each government concerned with federal-provincial relations (e.g. British Columbia's Office of Intergovernmental Relations).

b) Bilateral Discussion:

Both formal and informal bilateral consultation are important forms of intergovernmental relations. Formal discussions are often scheduled to augment federal-provincial conferences. On the other hand, informal discussion, usually by telephone, facilitates immediate consultation on specific issues and reduces prestige considerations. Too often efforts to achieve consensus at federal-provincial conferences are subordinated by attempts to gain political prestige through media coverage. Bilateral discussion must not, however, restrict the scope for further policy study and relevant interprovincial discussion. While formal and informal discussions are important and useful mechanisms of intergovernmental relations, their purpose should be to supplement, rather than replace, federal-provincial conference activity.

c) The Canadian Intergovernmental Conference Secretariat:

The Canadian Intergovernmental Conference Secretariat performs useful administrative support functions for the existing

system of federal-provincial relations. The importance of such functions as the distribution of conference agendas and the co-ordination and circulation of minutes and other documents resulting from meetings must be emphasized. Currently, the CICS serves the First Ministers Conference on a continuing basis as well as ministerial and officials meetings as requested. Some conferences continue to function without this support (e.g. Finance). In the interests of continuity, it is recommended that the CICS serve all ministerial conferences.

The conference secretariat has been quite successful in maintaining an independent role and serving both federal and provincial governments. In view of this achievement, the secretariat might be expanded to include the competence to co-ordinate studies if so instructed by the Conference of First Ministers. This possibility should be explored further and consideration given to the fact that the development of more extensive functions would, in turn, require additional manpower and expertise. This need might be met with additional CICS staff as well as secondments from federal and provincial governments. More complex research requirements, including the production of economic data and analysis, should however be assigned to a forum specifically responsible for economic research.

Should the co-ordination of government studies be contemplated as a role for the Canadian Intergovernmental Conference Secretariat, the independence of the secretariat should also be emphasized. Alternatives to accentuate the neutral role of the CICS include recognition of this characteristic in a formal intergovernmental agreement or incorporation of the secretariat as a company with no share capital.<sup>1</sup>

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1. Both the Canadian Council of Resource and Environment Ministers and the Secretariat of the Council of Ministers of Education are incorporated under the relevant legislation.



## 2. PROCEDURES

Structuring of intergovernmental forums must also include definition and acceptance of important procedural matters. Guidelines for the timing and frequency of meetings will contribute to a systematic network of forums. The timing of federal-provincial consultation represents a serious issue with provinces sometimes complaining of lack of input to policy formulation and program implementation. Occasionally, federal-provincial discussion is scheduled to occur after, rather than before, the introduction of federal legislation to Parliament. The implementation of certain programs has also sparked complaints. As an example, provincial manpower ministers complained at their January 1978 conference of the lack of consultation on program principles and national allocation formulas for the Canada Works program.

The value of meaningful consultation at each stage of policy formulation and program implementation becomes apparent by contrasting the Canada Assistance Plan with other programs introduced in the 1960's (e.g. Canada Pension Plan, medicare, financial relations, constitutional revision, vocational training). The Canada Assistance Plan has been described as distinctive in terms of extensive involvement by both levels of government in the establishment of the Plan.<sup>6</sup> Provincial demands for a new plan were receptively received by the federal government. The outline of the plan was jointly developed and consensus on the main elements was readily achieved. The Canada Assistance Plan was further characterized by extensive consultation among federal and provincial officials on the details of the plan as well as federal government responsiveness to provincial demands for flexibility. High levels of intergovernmental consultation continued after the adoption of the Plan to include implementation of the proposals.

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6. Rand Dyck, "The Canadian Assistance Plan: The Ultimate in Co-operative Federalism," Canadian Public Administration, Vol. 19, 1976, p.p. 587-602.



In contrast, the adult occupational training plan was developed by the federal government and presented to the provinces when they were not aware of such a need. Independent program proposals consequently prepared by each level differed substantially in outlook.<sup>1</sup> Similarly, the Canada Pension Plan was salvaged only by crisis consultations between the Governments of Ottawa and Quebec. Thus, intergovernmental consultation must be encouraged at each level of policy formulation and implementation, including confidential discussion prior to federal parliamentary action, on matters of joint federal-provincial concern.

The advantages of regular and continuing consultation has prompted some existing forums to adopt an annual conference schedule. This obligation should be required of all ministerial conferences with the provision that meetings may be advanced or postponed at the request of three or more participants. The requirement for annual ministerial meetings would facilitate more regular exchange of information as well as ensuring that conferences are held as required. Meetings of officials, rather than being bound by this requirement, should meet as required to perform assigned functions.

Structuring of the present system is also desirable to allow awareness, adequate preparation and input by all participants in the consultative process. Dissatisfaction has often been expressed by provincial representatives with the lack of input in the formulation of federal-provincial conference agendas.<sup>2</sup> Efforts should be made to ensure awareness of existing channels of input. Ministerial meetings are often preceeded by distribution of a proposed conference agenda. The Canadian Intergovernmental Conference Secretariat has

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1. J. Stefan Dupre, et.al., Federalism and Policy Development, (Toronto: 1973).
  2. This problem has not arisen to such an extent at meetings of senior officials where, in many cases, the discussions of technical committees are preceeded by meetings to determine topics for discussion. This procedure has proven very effective in the case of technical conferences.

played an important role in this area. The provinces may, at this time, recommend changes or additions to the proposed topics of discussion. However, the federal government, as chairman of federal-provincial forums, retains the initiative in this matter. Thus, it seems important that some formal provision be established requiring the conference chairman to seek the input of all government representatives prior to formulation of the agenda. In this way, issues of concern may be forwarded by all eleven governments and included in the matters for discussion. Alternatively, this obligation might be met through a meeting of deputy ministers. It is further recommended that a complete agenda be made available to conference delegations prior to the meetings in order to facilitate adequate preparation. While such changes cannot ensure provincial participation, they will ensure the existence of channels for input.

Recommendations regarding the regularity and agendas of federal-provincial conferences concern the role of the conference chairman. As previously mentioned, the federal government usually acts as the chairman in these meetings. While not as crucial as input into the agenda, the position of conference chairman is a very visible one. Therefore, it seems reasonable to require agreement by all participating governments on designation of the chairman. Should a federal chairman be opposed, alternatives for consideration include appointment of joint chairmen, a system of rotating chairmen, or nomination of a neutral third party. A representative of the Canadian Intergovernmental Conference Secretariat might serve as a neutral chairman.

Procedures for federal-provincial consultation must, finally, include some formalized procedure for terminating debate and establishing consensus. Although conferences may poll opinions, no votes are taken on matters of substance or procedure. Suggestions that this should be changed fail to take account of the difficulties involved in establishing a voting formula or the fact that intergovernmental forums are not decision-making bodies. Thus, attempts to obtain agreement must be limited to consensus-building.

For this reason, the structure for intergovernmental forums should include some framework to facilitate efforts toward solution of unresolved issues. It is generally agreed that the more technical or specialized the area of consultation, the more harmonious consultation is likely to be.

. . . federal-provincial administrative relationships have been harmonious and constructive to the extent that they have been dominated by program specialists . . . The attitudes, procedures and values common to particular groups of program specialists . . . provide common standards to which officials from federal and provincial levels defer.<sup>1</sup>

On the other hand, consultation on broad policy matters tends to become more difficult. Although political representatives in ministerial forums have the power to authoritatively resolve disputes, concerns of status and prestige interfere with decision making. These concerns are usually accentuated by media coverage of ministerial conferences. In recognition of these characteristics, the network of forums could, in some cases, ease resolution of issues by delegating certain disputes over specific aspects of general policies to committees of officials. Thus, technical discussion at each stage in the formulation and implementation of policies might facilitate the achievement of consensus.

### 3. ADHERENCE TO THE RESULTS OF INTERGOVERNMENTAL CONSULTATION

Study of government compliance with the products of intergovernmental consultation and discussion relates to the question of whether consultative forums require binding powers to function effectively. If given such power, agreement by participating governments would represent a binding obligation to conform to the terms of the understanding. This obligation

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1. Donald V. Smiley, "Public Administration and Canadian Federalism", Canadian Public Administration, Vol. 7, 1964, p. 378.



could only be removed through subsequent intergovernmental consultation and agreement. Some types of sanctions would also be necessary to ensure concurrence. While this option eliminates the possibility that individual governments might later repeal legislation or modify agreements prior to implementing them, it does involve the growth of another level of government. More importantly, such a development would not ease the more basic problems of initially obtaining intergovernmental agreement. It seems probable that governments, when faced with binding obligations, might be even less willing to restrict themselves through federal-provincial agreements thereby reducing the effectiveness of consultation. Fundamental problems might also arise over the application of sanctions. Finally, the acquisition of binding powers by a federal-provincial forum contravenes the legal basis of parliamentary government. For these reasons, alternative forms of increasing the power of federal-provincial conferences without instituting legally binding obligations and sanctions must be explored.

Attempts to ensure that governments recognize and take account of the results of intergovernmental consultation should be based on complete minutes and documents describing conference proceedings and agreements. This requirement should be fulfilled by the Canadian Intergovernmental Conference Secretariat. In the case of ministerial meetings discussing general policy directions, governments will usually be unwilling to endorse unstudied policy proposals. Agreement to study implementation of a given proposal is probably the limit to which governments will concur. By drawing up such a public statement of intent, governments will, to a greater extent, be bound to pursue the matter both within their own government and in more detailed discussions with other governments. Although such a statement may still be ignored, the costs of doing so increase sharply when accompanied by public scrutiny. Finally, complete minutes and statements of agreement will promote clarity and reduce the scope for misinterpretation.



#### 4. AREAS OF GOVERNMENT JURISDICTION

The need for intergovernmental consultation and resolution of joint governmental concerns stems from the Canadian system of federalism and overlapping areas of jurisdiction. The evolution of new concerns and issues have often cut across jurisdictional lines. As well, certain matters within provincial jurisdiction, as defined in the British North America Act, have become more salient. As a result, assigned responsibilities no longer correspond to available resources. Finally, the federal government, through its spending powers, has acquired an interest in certain areas of provincial jurisdiction. These developments have led to a situation where programs offered by one level of government may duplicate or affect existing programs offered by another government. As well, programs adopted by one government might "spillover" to create new problems requiring the attention of another level. Finally, programs may be divided and administered by two levels of government.

The overlap of government functions and responsibilities will often necessitate joint action to achieve effective policy making. Collaboration must extend beyond those areas of formal concurrency described in the British North America Act (e.g. agriculture, immigration, old age pensions). Greater recognition of areas of joint federal-provincial interest must be included in the constitution. Although description of greater areas of concurrent powers also involves the question of paramountcy of authority, it is important that this broad area of mutual concerns be formally recognized. Accompanying such a revision of concurrent jurisdictions must be an obligation for inter-governmental consultation in matters of joint responsibility. This consultation should occur both during the planning and formulation of policies and legislation and during the implementation and operation of programs. Flexibility rather than rigidity in the allocation of responsibilities is required to supplement intergovernmental consultative forums.

As well as consultation on all areas of joint concern, consideration must be given to assigning a greater role in dispute resolution to federal-provincial forums. It is possible that jurisdictional disputes between levels of government (e.g. resource taxation, cablevision) might benefit from consultation rather than the present system of judicial examination.

Finally, description of the role of these institutions in the constitution may increase awareness of the importance of and support for more structured forums. This limited revision of the constitution would be valuable in the sense of serving as recognition of and legitimizing the prominence of inter-governmental conferences in the Canadian federal system.

#### 5. ATTITUDES AND SUPPORT

More structured intergovernmental consultation is only one element of effective government relations. Government representatives must approach meetings with a positive attitude and accept the responsibilities of membership and limitation of individual action if consultative forums are to function effectively. Personal understanding tends to facilitate harmonious relations. Forums will also function more effectively when participants are committed to particular policy results as opposed to enhancing political influence and when participants are willing to recognize the value of the objectives of other representatives. Thus, the attitudes of ministerial and administrative participants are crucial determinants of effective consultation. The attitudes and support for liaison cannot be prescribed or ordered but rather depend on personal awareness and past performance of forums.

#### 6. SUMMARY

In summary, federal-provincial consultation has evolved as a practical response to the needs of government

interdependence. This system of interaction, although hindered by some problems, is probably best suited to meet the demands of joint government responsibilities and concerns. Increased consultative effectiveness through resolution of these problems requires greater structuring of forums to allow co-ordination of effort and avoid proliferation of agencies. Procedures for the settlement of intergovernmental disputes must be accompanied by guidelines for the scheduling and frequency of discussion and for agreement on the formulation of agendas and selection of conference chairmen. Finally, efforts must be made to ensure that governments take account of these discussions and agreements and that intergovernmental consultation takes place in the many areas of concurrent interest.



TABLE 1

Frequency of Federal-Provincial Meetings and Conferences  
According to Level of Representation and Area of  
Government Activity, 1975

	First Ministerial	Ministerial	DM	ADM	Officials	Total
General Government	-	3	11	-	4	18
Finances	1	3	7	1	6	18
Agriculture	-	8	9	4	2	23
Transportation	-	15	15	14	13	57
Education	-	2	2	-	5	9
Energy and Resources	3	12	27	6	3	51
Environment	-	19	29	20	25	93
Manpower-Labour	-	23	8	2	11	44
Statistics	-	2	1	4	30	37
Welfare	-	4	5	9	4	22
Health	-	2	15	6	15	38
Industry and Trade	2	7	55	43	50	157
Urban Affairs	-	23	9	14	32	78
Justice and Laws	-	13	3	3	3	22
Consumer Affairs	-	7	4	1	3	15
Communications	-	6	1	-	2	9
Native Affairs	-	11	4	12	11	38
Miscellaneous	-	7	18	15	13	53
TOTAL	6	167	223	154	232	782

TABLE 2

Frequency of Federal-Provincial Meeting and Conferences  
According to Category and Level of Representation, 1975

	Bilateral	Regional	Multilateral	Total
First Ministerial	4	-	2	6
Ministerial	99	10	58	167
Deputy Ministerial	148	12	63	223
Asst. Deputy Ministerial	111	14	29	154
Officials	128	9	95	232
TOTAL	490	45	247	782

SOURCE: Institute of Intergovernmental Relations, "Federal-Provincial Administrative Liason in Canada", Public Administration in Canada, Kenneth Kernaghan, ed. Toronto: Methuen, 1977, pp. 80-81.



## Part 2

### NEW FORUMS FOR NATIONAL ECONOMIC RESEARCH

The intention of reforms suggested in Part 2 of Regional Economic Accommodation is to improve the quality of national economic research and to provide for a degree of regional accommodation in national economic research that does not now exist. This section outlines one of a series of major adjustments that are necessary to ensure that regional interests are properly represented in shaping policies on national economic questions. The purpose of changes suggested here would be to facilitate the flow and production of economic information and analysis so that a full evaluation can be made of the impact of current and proposed government policies on the regions of Canada.

#### A. THE REFORM OF NATIONAL ECONOMIC RESEARCH

Because of the increasing degree of interdependence among the economic activity of the various governments in Canada, both federal and provincial economic policies should be assessed in light of the harm or benefit such policies offer to all regions of the country. In future, the provinces will continue to play an increasingly large role in conducting their own economic research and assessing the implications for their regions. Even so, the overall nature and conduct of the economic research which supports national economic policies must be challenged. Reforms must be made to ensure that there is adequate regional participation in examining both regional economic problems and the long-term and current problems affecting the Canadian economy and in developing policies designed to solve these problems.

#### 1. PRESENT ORGANIZATION OF NATIONAL ECONOMIC RESEARCH

The collection and generation of economic data itself is largely carried out by federal government departments, particularly Statistics Canada. Besides the analysis and evaluation carried out by federal departments, such as Finance and DREE, the AIB and in particular the Economic Council of Canada undertake major

economic research studies. Current statistical arrangements fail to provide a broad structure within which data can be shared and coordinated among senior governments.

The Economic Council of Canada, now 15 years old, was established to provide the basic economic research necessary for national policy-making. As well, it was directed to raise the level of public debate on economic issues in Canada, and to ensure broad support for new policy directions among major interest groups. To make certain that the agency's reports and recommendations received this broad support, the 28 members of the Council were drawn from business, labour and other groups.

While all three of these objectives were excellent ones, experience has shown that they were not mutually compatible within a single economic institution. The Council interpreted its mandate to mean that it had to achieve a consensus among the interest groups it represented before issuing reports or making general recommendations. In designing its research programs the Council concentrated on projecting the economy's performance over the medium-term, and tended to avoid making controversial recommendations on current economic policy or commenting on how the targets it recommended should be achieved. In addition, the problems involved in reaching a consensus prevented prompt publication of research results, so that the Council did not fulfill its task of ensuring the public was well advised on current economic issues.

## 2. PROBLEMS WITH THE PRESENT SYSTEM FOR THE PROVINCES

Although the Council is to some extent regionally representative, and although the Council's mandate instructs it to consult with appropriate provincial agencies, there is no formal provincial representation on the Economic Council. There is no provision whereby the provinces can ensure that the kind of economic research they view as essential to an understanding of the impact of national economic policies on their regional economies will be carried out. Certain questions of regional concern, such as tariffs, special transport rates and government spending have not been resolved with due attention to the impact on all regions concerned. Secondly, the problems associated with the informal rule on consensus have also been of concern to the provinces. In



particular, the problem of "lowest common denominator" solutions and the failure to provide the economic information necessary for current policy-making have been of concern.

The data collected in the federal agencies is structured mainly for national purposes so that sets of regional data are frequently not available. While Statistics Canada has regional information offices in certain areas, several years of effort by the provinces to obtain more regional information from the federal agencies has only had limited success.

There are generally no provisions for freedom of information in Canadian legislation, so that the provinces, as well as the public, encounter problems in securing economic information. Besides the problem of time lags in getting information cleared, the habit of federal officials of stamping almost everything "Confidential" also creates difficulties. Provincial officials may receive adequate documentation from sources in Ottawa, but since documents are marked Confidential they cannot be cited by the provinces. In other cases, data is not released since there is concern that great damage could be done through disclosure of much economic information. Thus, for instance, provincial officials are not allowed to review the list of items offered for exchange at GATT negotiations. While the importance of confidentiality is naturally recognized, it is to be hoped that current steps to devise procedures by which business people and provincial officials can have access to GATT information will be continued. Such procedures might also be applicable to other areas of concurrent federal-provincial interest.

### 3. PROPOSED REFORMS

Providing full and prompt information and analysis to help solve Canada's economic difficulties has been a long-standing concern. However, the increased interest in regional economic data, and the need to ensure that labour and management have a satisfactory consultative relationship in the post-controls period indicate that some institutional changes are necessary at this time. Labour representatives withdrew from the Economic Council of

Canada in 1976 in protest over wage and price controls. The Council now has about 21 members. As pointed out, it seems undesirable in the future to try to get a consensus among labour, management and government within the framework of the Economic Council of Canada. Good policy analysis is not always amenable to consensus, so consultation and decision-making must be divorced from economic analysis. The chief economic research agency must maintain both independence and integrity, but there should also be regional advise and continuing liaison during the course of research projects concerning the regions.

A two-pronged approach can overcome these difficulties. The Economic Council of Canada could be restructured to carry out research both for the federal government and the regions, with its reports and recommendations being subject neither to a consensus requirement nor to a veto. Secondly, the quantity, quality and timeliness of economic information flowing from the federal government to the provinces can be substantially improved by making several adjustments.

#### 4. PROPOSED REFORMS: A NEW AGENCY FOR NATIONAL ECONOMIC RESEARCH

The present Council might be replaced with an Advisory Board, a research staff and Director. Each province and the federal government could appoint one representative to this Advisory Board. The term served should be determined by the individual governments.

The Director of Research should be appointed on long-term contract by the Advisory Board. Generally, it should be assumed that the Council could not arbitrarily replace the Director before his or her term is completed. However, in order to ensure that fresh ideas are continually brought to the institute<sup>1</sup>, the Director should serve no more than one 5 year term.

Since the new institute should maintain a strong public profile, it would be desirable for the Board and the Director to jointly select at least four outstanding social scientists as Senior Researchers. These individuals could be appointed on relatively long-term contracts (3 to 5 years) which would be

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<sup>1</sup> "Institute" is used generally here to distinguish a new agency from the present Economic Council of Canada.



renewable. The Director alone should be responsible for selecting the remainder of the research staff.

The priorities of the institute and the general agenda for research should be determined jointly by the Advisory Board and the Director and Senior Researchers. The agenda should be in part determined by the requests for studies made at federal-provincial conferences. In the event of serious differences over the research program, the Director should be permitted to make a final decision only after efforts to informally reach a consensus have been exhausted.

The Director, in conjunction with the Senior Researchers, should have final responsibility for the conduct of the research, once the broad agenda has been determined. However, where ever possible, liaison should be established between each research project and an official in the concerned provinces. The government representatives would be responsible for ensuring that liaison is established with their respective provinces.

The Director, in conjunction with the senior researchers, should have responsibility for the final reports of the institute. The Board could endorse the publication if it chose to, but no publication could be vetoed.

In order to ensure that the new institute fulfills its responsibilities to educate and enlighten the public, the publications and the annual review should be submitted to Parliament for comment and questioning. Secondly, the Director and the Senior Researcher should be encouraged to comment freely on government economic policy.

The institute's tasks should include that of reporting with some emphasis on the current economic outlook. Generally, the broad functions suggested as "Duties" in the original Act establishing the Economic Council of Canada should be retained<sup>1</sup>. However, reference to consultation in items (i) and (j) should be deleted.

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<sup>1</sup> "An Act to provide for the Establishment of Economic Council of Canada" Revised Statutes of Canada, Canada 1970 Vol. III 1963, c. 11, s.1. While the list is a comprehensive one, there is no reference to the role of research and development in the Canadian economy. It might be desirable to add a responsibility to evaluate the economic utility of developing appropriate R and D technology for small, medium and large Canadian businesses.

Funding for the institute should be provided jointly by the federal and provincial governments. Eventually, it might be desirable to locate the restructured Council outside Ottawa, in line with the federal government's interest in encouraging decentralization.

##### 5. PROPOSED REFORMS: ECONOMIC INFORMATION

As suggested several serious problems exist in the flow of economic information between the federal government (and quasi-governmental agencies) and the provinces. First, there is a problem of awareness. At present, there is no systematic mechanism by which the provinces can learn of the existence of sources of information that may be extremely valuable for their work on analysis and planning. Secondly, there is a problem of access. Even where the existence of a source may be known, it may be exceedingly difficult or impossible for a province to obtain the information. Although in a few instances there may be valid reasons why certain information may not be shared, in many cases the procedures for obtaining approval are unnecessarily complicated and occasionally arbitrarily negative. Finally, there are problems of priorities and timeliness. Too frequently, provincial needs are not given adequate consideration when data is collected and studies are conducted by the Government of Canada. Timeliness of data and research results is adversely affected by delays in obtaining release, bottlenecks in translation and publication and inadequate communication.

In order to improve the flow and exchange of economic information among the regions of Canada, meaningful federal legislation on freedom of information would appear to be desirable<sup>1</sup>.

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<sup>1</sup> The present Green Paper, Legislation on Public Access to Government Documents, Ottawa, Secretary of State, June 1977, suggests that any forthcoming bill might contain such broad exceptions to the rule of freedom of information that the status quo would in fact be maintained.

If material were generally assumed to be available at public request unless the responsible Minister ruled to the contrary, the speed at which the provinces could obtain the economic information they needed would be increased, and unnecessary and costly duplication of research could be avoided.

In addition, a formal federal-provincial agreement might express the desire of the federal and regional governments to cooperate in the exchange of economic analysis and data. A formal agreement on the sharing of information between governments should also define criteria by which access can be facilitated without the necessity of seeking specific approval. In the interest of improved timeliness, the agreements should extend to pre-publication drafts, discussion papers, and experimental data.

Secondly, the agreement could also establish a small Economic Information Office in Ottawa to facilitate the flow and exchange of economic information and to increase the coordination of economic research among the federal and regional governments. It would also be the task of this Office to ensure that data requested by the governments was provided as rapidly as possible by the various federal and provincial agencies. The Office should also have a strong mandate to assemble inventories of information<sup>1</sup>. It should be able to identify all governmental and quasi-governmental sources of economic information: data, studies, reports and work-in-progress.

The Federal-Provincial Consultative Council on Statistical Policy should be assigned strong direct influence on priorities and resource allocation for the collection and processing of statistical information. This influence should be extended beyond the statistical agencies of the federal and provincial governments to include other ministries and departments of those governments.

One final suggestion may help to link information gathering to federal-provincial policy making. The Canadian

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<sup>1</sup> Currently a number of "Cleaning House Projects" for identifying data within the federal government are underway in the Treasury Board and Statistics Canada.



Intergovernmental Conference Secretariat, as proposed in the section on Federal-Provincial Negotiating Forums, might be charged with the responsibility of collecting material requested in advance of major economic meetings. Should the CICS be expanded in this way, the new Economic information Office should establish a liaison with the Secretariat in order to facilitate the Secretariat's task of collecting and distributing information in advance of conferences. Such changes should improve the quality of economic research in Canada, and make it more relevant to current policy making.



PART IIITHE REFORM OF FEDERAL REGULATORY, INFORMATIONAL AND JUDICIAL AGENCIESA. INTRODUCTION

Regulatory agencies are for the most part established for good reasons. There is no question that modern economies are dependent upon a great deal of regulation, much of which is desirable. Both governments, and quasi-governmental agencies, undertake this regulation. While these many commissions, boards, councils and crown corporations are separate from the central government administration, they have grown as rapidly as have governments themselves in recent years. At the federal level, there were in 1977 some 61 national commissions, committees, boards and councils. There were some 41 crown corporations, as opposed to 29 such corporations ten years previously. Alongside the proliferation of new agencies, existing ones are greatly expanded. Since these agencies have become a fairly permanent aspect of Canadian life, even though the society and economy have undergone enormous transformations, it is appropriate to ask if in 1978 they serve the Canadian public interest well. In particular, it can be questioned if they respond to the varying needs of Canada's regions.

If these agencies are examined from the standpoint of public policy, several questions arise: what are the intended functions of these institutions; are these tasks valid in current economic and social conditions; and how in fact do these agencies behave? Do they undertake more or less than they are intended to, and how do they affect the distribution of power and wealth among the regions of Canada? Regional concerns have been voiced with respect to many of these agencies, among them the Canadian Transport Commission, the National Energy Board, the Energy Supply Allocation Board, the Tariff Board, the Canadian Trade and Tariffs Committee, the Anti-Dumping Tribunal, the Export Development Corporation and the Bank of Canada. While this paper comments on the authority and functions of all these agencies, it deals in depth with only one agency - the Anti-Dumping Tribunal (see Appendix). The reason for choosing the Tribunal is not because of its size of power - it is of course one of the smallest of the group mentioned. However,

the Tribunal illustrates the actual behaviour of an agency, and demonstrates how the implications of its decisions range far beyond Ottawa and unwittingly affect many who are not directly involved with the regulatory process.

It has been pointed out elsewhere that some of the mechanisms set up to regulate certain aspects of the economy do more harm than good (see Background Paper entitled "Canadian Industrial Policy"). Essentially, it is argued that excessive regulation has led to an inefficient allocation of resources, and that the problems which current regulatory agencies attempt to solve could better be handled by other mechanisms including, possibly, deregulation.

While valid economic reasons exist for initiating a regulatory system, many non-economic factors also encourage regulation. Such factors have been argued to be in the "public interest" or the "national interest", but both concepts are so broad that almost anything can be included under such headings. Still, some legitimate, though sweeping, concerns have prompted the establishment of national regulatory agencies. These concerns include national unity (e.g. transportation and foreign investment regulation) and economic development (trade, transportation and energy regulation).

#### B. THE CANADIAN REGULATORY SYSTEM

Regulatory agencies are generally supposed to promote the public interest, although how they do this is usually left extremely vague in their written mandates. Regulatory regimes are really "independent governments", operating within the confines of a functional area. Creating such regimes follows from the perception that while a certain activity needs to be regulated, such regulation should be divorced from the continuing political pressure that regular government officials are subject to. While the agencies named are in broad terms regulatory ones, some do less than regulate and some do much more than that. Often they channel public opinion (or that of a small sector of the public), carry out research, give advice to the government and allocate wealth, as well as fulfill their regulatory tasks. The Canadian Trade and Tariffs Committee has the most limited scope and the least authority of

the agencies listed. In fact, it does not regulate anything. Its main task is to help articulate the public interest through determining the interests of the business and general community with respect to GATT negotiations, which it does by holding public meetings to receive industry submissions. Most agencies, however, perform a variety of tasks. The Tariff Board, for instance, determines industry sentiment on trade questions, but in addition has a quasi judicial function in that it reviews appeals to decisions made on trade and tariffs. The Anti-Dumping Tribunal has a straightforward quasi-judicial function in that it must decide whether or not the dumping of imports has, is, or will in the future cause material injury to domestic production.

The Canadian Transport Commission, through eight committees, both ascertains the industry and the public interest (although few of its hearings are open to the public), regulates all modes of transport, plays an advisory role to government, and initially carried out research as well. The Bank of Canada also does its own research, acts as a regulatory agency, a policy-maker on monetary questions, and a financial adviser to the government. The National Energy Board carries out research, makes inquiries into the public interest through its hearings, regulates the energy transportation industry, and provides advice to the government. While the NEB normally is much more influential than the presently moribund Energy Supplies Allocation Board, in the event of another oil crisis that Board would exert a powerful control over allocation of energy products as well as monitoring their use.

### C. EXISTING MECHANISMS FOR REGIONAL ACCOMMODATION

There are limited formal or informal mechanisms for regional involvement in the agencies listed. For the most part, their mandates do not refer to regional concerns, nor have these agencies generally developed strong working and consultative relations with the provinces, such as has the Foreign Investment Review Agency. While the boards of such agencies are appointed with geographical balance in mind, there is no other guarantee that regional concerns will be taken into account. Only British



Columbia's experience has been described here, but it almost certainly has application to other regions. A partial list of these agencies is set out here.

### 1. BANK OF CANADA

The Bank of Canada is controlled by a Governor, Senior Deputy Governor, 2 Deputy Governors and 12 Directors appointed by the federal government for three year terms. The Bank of Canada is the most centralized of all the regulatory agencies in that it has no mechanism for regional accommodation at all. The Bank's research is entirely macro-economic, with no studies undertaken of the effects of monetary policy on different regions. Nor is there adequate consultation between provincial officials and officials of the Bank of Canada.

### 2. EXPORT DEVELOPMENT CORPORATION

The Export Development Corporation is controlled by a 12-member board. Five of the 12 members are appointed from industry, and there is no formal provincial representation. The remainder are deputy ministers or heads of regulatory agencies, including the Governor of the Bank of Canada and the President of CIDA. Although the recent re-organization of the EDC, and its opening of an office in Vancouver indicate some response to regional needs, the existing level of consultation still appears to be inadequate. Provincial officials receive a monthly bulletin from the EDC, and in those limited instances where tenders are still appropriate, the officials may then contact local companies. However, there is some feeling that EDC does not have a wide range of contacts among Western companies, and that decisions as to who gets contracts still tend to be made in Ottawa (i.e. those companies with long-established contacts with EDC in Central Canada receive a disproportionate share of contracts).

### 3. CANADIAN TRANSPORT COMMITTEE

The Canadian Transport Commission has a 17 member board, including one president and two vice-presidents. It operates under the authority of the National Transportation Act, currently being revised as Bill C-33. The need for regional mechanisms has perhaps been most strongly made in the case of the CTC. The Western



provinces made strong arguments for such mechanisms at the Western Economic Opportunities Conference in 1973. There is some provision for regional accommodation in the existing Act (in Section 3 which states in very broad terms what national transportation policy should be). The question has been whether a more specific reference to regional development is likely to be the best means to protect the western provinces' interest. A long-standing problem with the CTC's regulatory regime has been the provinces' lack of access to the economic information and research they need to assess the impact of transportation policies on their regional economies. For this reason, disclosure of transportation rates (particularly railway) has been sought. Generally the western provinces have argued that price should be determined by actual costs rather than by the costs of an alternative carrier, or that generated by cross-subsidization.

The location of a regional office in Vancouver by the CTC has been a useful step in decentralization, since much of the regulation pertains to transportation needs at the provincial level. Existing consultation is generally felt to be satisfactory. Following the WEOC Conference in 1973, the Federal-Provincial Committee on Western Transportation was established, and this appears to have been a useful mechanism to convey common concerns of the western provinces to Ottawa.

#### 4. NATIONAL ENERGY BOARD

The National Energy Board has an eight-member board, with no provincial representation. There are no specific references to the need to respond to regional development or other regional concerns in the NEB's mandate. While permanent regional offices for the NEB would not be necessary, direct regional input into decisions pertaining to the specific region is essential. Generally, most regional problems with energy matters concern federal government policy rather than the actions of the NEB.

#### 5. ENERGY SUPPLIES ALLOCATION BOARD

The Energy Supplies Allocation Board which was established in 1974 to handle the emergency situation created by the oil embargo, is inactive at present. The six-member board has been retained, although the initial combination of federal government and industry

representatives have been replaced by Energy, Mines and Resources officials. The Board still prepares various plans for allocation in the event of a new emergency. There are no specific mechanisms for regional adjustment under the terms of reference of the Board. Generally, the current function of the Board does not require such specific mechanisms, although new developments might alter this situation. One sub-group of ESAB, the Petroleum Compensation Group, is active. The Group's function is a straightforward one, - it reimburses companies who bring in crude oil and petroleum, paying them the difference between the Canadian price and the international price (as the Canadian price rises, this compensation is reduced). The present contact between the group and the region occurs at the official level via the British Columbia Energy Commission. It generally appears that the designation of an official by the province to serve as liaison with the Petroleum Compensation Group has satisfactorily resolved the problem of provincial input. However, it must be acknowledged that the primarily administrative tasks at the present time contribute to the present good relationship. In the initial period when ESAB was created, the very real problems of dislocation that were experienced at that time of necessity resulted in more strain between the regulatory agency and the province.

#### 6. TARIFF BOARD

The Tariff Board in practice does make some regional adjustments even though there is no specific reference to regional factors in its mandate. Regional tariffs are set, for instance, for fresh fruits and vegetables, an appropriate recognition of the diverse growing seasons in Canada. However, this regional recognition does not appear to extend to other areas of the Tariff Board's authority. With respect to present formal and informal consultation with the provinces, when there is an appeal being made or considered, the Tariff Board appears to be particularly weak. Finally, the Anti-Dumping Tribunal has limited capacity for regional accommodation and very limited working relationships with the provinces.

#### D. THE NEED FOR REGIONAL ACCOMMODATION

Recent experience with the Anti-Dumping Tribunal provides a clear example of the need for regional accommodation in federal regulatory agencies. Regulatory measures are properly taken to control the dumping of imports causing material injury to domestic producers. However, in taking such measures there is clearly a need to exempt or minimize the impact on other regions of the country when material injury is confined to a definite region. Both Canadian and international law do recognize that in some circumstances regional markets exist which should be exempted from anti-dumping duties. In practice, though, regions such as British Columbia have been unable to secure exemptions from anti-dumping measures. The failure to provide for regional exceptions arises from the fact that the regional situation does not precisely correspond to that specified in national and international law. Thus, in its recent decision on the Algoma Steel case in December 1977, the spokesperson for the Anti-Dumping Tribunal declared her full sympathy for the difficulties encountered by Newfoundland and British Columbia, but added that the Tribunal's mandate did not allow it to take their problems into account. Since the action of the Anti-Dumping Tribunal provides insight into the manner in which regulatory agencies provide for regional accommodation, it has been analyzed in detail in the Appendix.

Criticism of the regulatory agencies has been severe and wide-ranging. Some have argued that their performance could be improved by tinkering with the structure and functions of these agencies. For instance, the basis on which representatives were chosen could be altered, or modifications made to the agency's mandate. While some such adjustments may well be helpful, it is more important to distinguish between the two broad routes that reform can follow. First, the regulatory agencies can be detached further from the political process, in order to give them the independence and integrity which they need to make "impartial" decisions in their own areas of competence. Alternatively, they



can be drawn more closely into federal and provincial political processes. In some circumstances, their decisions would then be more timely and politically relevant, with the cost being some loss in their capacity to be neutral, and to be seen as neutral. Which of these two major routes is selected must depend on the individual circumstances confronting each regulatory agency.

#### E. MECHANISMS FOR REGIONAL INPUT TO REGULATORY AGENCIES

The need for consideration of regional concerns in regulatory agencies is clear. There are, however, a number of ways by which this could be accomplished and these must be analyzed on a case by case method to determine the appropriate course to take for each agency. For instance, the function of the Tariff Board might better be handled within government departments themselves whereas in the case of agencies such as the NEB, a quasi-judicial, independent status appears most appropriate.

Four methods of regional accommodation which warrant consideration are as follows:

- i) formal provincial representation on the restructured agencies;
- ii) continuing informal consultation between provincial officials and the regulatory authority;
- iii) new or amended mandates for the agencies, allowing them to consider "regional equity" or fairness in making their decisions. The involvement of the regulatory agencies in the political process would be increased through more direct links to government, and regulatory officials would not be allowed to hide behind the pretence that their decisions were legal rather than political ones; and
- iv) support for more public and open procedures for



the agencies, insisting that they represent other groups (such as importers and consumers) as well as producers. It seems evident that the provinces, whose public is part of the general public would benefit from a freer flow of information from the regulatory agencies, and from attention to the needs of consumers (who seek lowest costs) as well as the needs of producers. High calibre, disinterested representation on the boards of these agencies would help to ensure the public interest was defined in an enlightened way.

i) Mechanisms for Regional Accommodation - Representation

It may be found necessary to directly seek this accommodation either by seeking provincial representation on such agencies, or by altering the mandates of such bodies so that regional accommodation can be effected. Regional representation can be of three types, varying according to the level of control the province would have over the regional representative. In the first type, the province would directly appoint its own official representative, as has been proposed for a restructured Economic Council of Canada. It would be expected that in this type of situation the representative would vote largely according to the wishes of his or her province.

In the second situation, the federal and provincial governments would consult prior to making non-governmental appointments to the regulatory agencies. This consultation would prevent a candidate being selected that a province disapproved of, but it would be assumed that the individual selected would vote according to his or her own preferences. Both in the case of the Export Development Corporation and the Bank of Canada, this type of representation would seem to be useful. In the case of the EDC, the reason for seeking official representation would be to ensure that information about upcoming contracts could be promptly communicated to Western companies. In recent years, the EDC has had a good record of providing loan insurance to Western companies, but there is some evidence that loan financing could be improved.

In the third situation, appointments would continue to be

federally made, as they are now, but stronger efforts would be made to ensure that all the regions were well-represented. For instance, positions could be granted on the basis of one per province rather than on a per capita basis. This solution might be desirable in the case of those agencies where policies had a strong regional content, but there was reason to continue to shield the regulatory process from government intervention. The Canadian Transport Commission and the National Energy Board might benefit from this type of representation. Generally, however, this type of representation is not likely to produce significant regional input.

ii) Mechanisms for Regional Accommodation - Informal Consultation

For the most part, it appears that better communication at the official level would improve the situation as much as regional representation on governing boards. The designation of a provincial official to serve as liaison with each regulatory agency is a useful first step in improving the consultative relationship. In the case of the Bank of Canada, some input at the official level on long-range policy should be sought. However, it is usually the routine harmonization of policies which should be sought through informal consultation.

iii) Mechanisms for Regional Accommodation - New Mandates

The record of the Anti-Dumping Tribunal showed that the Anti-Dumping Act was poorly worded in that it did not practically allow a regional market exclusion. Only a few other agencies have similar problems with their mandates, such as the Tariff Board and the CTC.

In the case of the CTC, one radical suggestion has been made that the whole commission be restructured along regional rather than the functional lines on which it is now constituted.<sup>1</sup>

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<sup>1</sup> J. W. Langford, "The National Transportation System: Restructuring for Effective Regulation", in K. M. Ruppenthol and W. T. Stanbury eds. Transportation Policy: Regulation, Competition and the Public Interest, Vancouver, Centre for Transportation Studies, 1976, pp. 93-108.

This solution would both allow more attention to inter-modal questions (which were stressed in the National Transportation Act) and would encourage regional accommodation, in that the question of cross-subsidization would be solved. This suggestion needs examination by both federal and provincial parties. If each regulatory agency were regularly assessed at the appropriate federal-provincial forum, broad policy concerns of the provinces could be transmitted to the agency by the C.I.C.S.

iv) Mechanisms for Regional Accommodation - Broadening the Consideration of the Public Interest

Some suggestions have been made that the position of consumer advocate be institutionalized in a separate agency or within certain agencies such as the CTC, and it would appear that this step might protect the regions as well or better than specific provincial representation. Regulatory agencies need to be continually forced to re-examine what the "public interest" is, and they must be forced to consider all the public. Otherwise they will simply act to defend the special producer interests which they were intended to control. For instance, if a new Trade Review Board were created, it might be desirable to let consumers, importers, provincial representatives and labour associations, as well as domestic producers, bring grievances forward. Agencies such as the Tariff Board which do not even feel compelled to make an annual report, and are able to sit indefinitely on appeals are in neither the provincial nor the public interest. In general, the more open the flow of information is from the agencies, the more the provinces would gain, since they would be able to get timely economic information.



## CONCLUSION

The formal meetings of the Prime Minister and Premiers and of their ministers form the core of the federal-provincial political process. Given the heavy demands on this system in the 1970's, ways must be sought to upgrade and streamline it. Some principal reforms might be:

- greater structuring of consultative forums in terms of organizational co-ordination and inputs from support groups, as well as a system of review and evaluation which would improve or eliminate unnecessary or ineffective forums.
- clarification of procedural issues. Included must be procedures for the regular scheduling of meetings, formulation of agendas, selection of conference chairmen and achievement of consensus.
- attempts to ensure that governments recognize and take account of the results of intergovernmental consultation.
- formal recognition of the numerous areas of federal-provincial concurrent interest along with some formal obligation for intergovernmental consultation in these areas.

These procedural problems with federal-provincial decision-making are accompanied by certain substantive problems. These issues concern the nature and quality of economic information and research available to governments in these forums. The structuring of national data, and access to information without freedom of information legislation contribute to a situation where the regions often lack the economic research considered vital to an understanding of their own region as well as the impact of national economic policies on their particular regions. It would appear, then, that:

- i) a more adequate flow of economic information to the provinces is desirable;
- ii) a restructured Economic Council of Canada should produce more research relevant to the regions;



- iii) research should be transmitted to the Canadian Intergovernmental Conference Secretariat for distribution to the provinces well in advance of meetings.

Supplementing the problems of assembling and providing access to the research necessary for economic policy decisions and the problems affecting direct federal-provincial consultation and negotiation, are difficulties in the implementation of broad policies. These difficulties concern both coordination between the regional governments and federal government officials, and coordination between provincial officials and the staffs of federal regulatory bodies, including the crown corporations. In both these cases it is recommended that:

- i) federal officials maintain informal consultative relationships with provincial officials. This will overcome provincial complaints of a fait accompli by a federal agency or department. These informal relationships would be encouraged if the provinces designated an official responsible for consultation with each agency, department, or part thereof.

In the case of regulatory agencies:

- ii) official provincial representation should be encouraged on some governing boards, particularly the Export Development Corporation and the Bank of Canada.
- iii) changes must be made to the mandates of certain agencies to ensure regional accommodation. Such accommodation should be compatible with the broad policy directions suggested in the National Economic Strategy.

- iv) to ensure that policy-making (Stage I) is linked to implementation, the functions of the regulatory agencies should be periodically assessed in appropriate federal-provincial meetings.

## Appendix

### THE CANADIAN REGULATORY SYSTEM FOR DUMPING: A CASE STUDY

#### THE CANADIAN DUMPING SYSTEM

Several agencies have responsibility for international trade matters in Canada. The Tariff Board has seven members, and a small research staff of economists. The budget requested for 1977-78 was about \$800,000. The Board does print its decisions, but produces no annual report and generally appears to be less accountable and less efficient than the Tribunal. In 1976, the Board received 70 appeals, and responded to only 29 of them. The average time to reach a decision appeared to be well over 6 months.

The Canadian Trade and Tariffs Committee (CTTC) was set up in 1973 to prepare for the Tokyo Round. It is simply an information-collecting body which holds hearings on how the public views Canada's long-term interests in international trade. The provinces make submissions to it along with non-governmental groups. However, the provinces complain that this agency is totally separated from the policy-making process. Moreover, the provinces are not given access to other industry briefs submitted to the CTTC which would allow them effective input into the policy-making process which occurs not in the CTTC, but in the government.

While the Canadian Trade and Tariffs Committee and the Tariff Board are involved in international trade regulation, the Anti-Dumping Tribunal is the only regulatory agency handling just dumping problems. As its name implies, the Tribunal's function is that of adjudication. The government first determines, over a period of up to 7 months, whether dumping has occurred. Preliminary duties are then applied. The Tribunal must determine whether material injury to producers of like goods has occurred given the legal criteria established in the Anti-Dumping Act. The Plaintiff must give evidence of damage, and must show that the foreign company's price in the home market is definitely lower, a difficult piece of evidence to collect. Only firms and the Deputy Minister of Customs, National Revenue and Excise can lay complaints, so that other groups are excluded from the process.



Federal action to control dumping is defined in the Anti-Dumping Act, 1968-69, c. 10, s.1. Besides defining what constitutes dumping, the Act set up an Anti-Dumping Tribunal to adjudicate when a domestic producer lays a complaint. However, once the Tribunal makes its ruling, the imposition of the duty is maintained or lifted by the Deputy Minister for National Revenue, Custom and Excise. The anti-dumping duty is only applied to those countries found guilty of dumping.

Once decisions have been made on dumping, there are a variety of ways to alter them. An appeal can be made through the Canadian Anti-Dumping Act 7 (1), which states that "the Governor-in-Council may exempt any goods or classes of goods from the application of this Act."<sup>1</sup> In the case of regional markets, those appealing can argue that the reference to Article 4 of the Anti-Dumping Code in the Canadian Anti-Dumping Act (Article 15) implies recognition of regional exclusion.

While dumping itself does not appear to be contrary to present international law, some anti-dumping measures may be. The 1963 Anti-Dumping Code was signed under the broad umbrella of the GATT system to specify the limited conditions under which anti-dumping measures could be taken<sup>1</sup>. There are no international procedures for investigating dumping, nor any sanctions which can be applied against countries which contravene anti-dumping rules. Some two dozen countries (generally the OECD group) have signed the code and these probably have some form of anti-dumping legislation. Although comparative statistics are difficult to establish, Canada may use its anti-dumping legislation relatively frequently.

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<sup>1</sup> According to R. de Grey, The Canadian Anti-Dumping System Montreal, Private Planning Association of Canada, 1973, (p. 74) the Anti-Dumping Act could allow regional exclusion in 2 ways: "One would be for the Tribunal to define the category of goods to which its finding applies in such a way as to limit the application of the duty to goods destined for the region concerned. Another approach would be for the government to exercise its power under Section 7 to exempt the goods at issue from the duty when destined for markets in Canada outside the region".



The position of the Federal government is clearer with respect to anti-dumping than to dumping itself. Canada is a signatory to the Anti-Dumping Code, and participated in the negotiations establishing the Code. One of the articles in the Code that Canada actively promoted embodies the regional market system (Article 4). This Article seeks to establish ways to allow anti-dumping regulations to be applied to the affected part of the country, rather than the whole country. Canadian interest in this aspect of international dumping derived from a case involving Canadian imports into the United States' Pacific Northwest. The single United States domestic producer in that region (which claimed to be injured by the dumping) of a "like good" was located in Colorado. Other United States producers were separated from the Colorado product and the Canadian dumped product by a freight barrier. The United States regulatory authority ruled universal injury to United States production although the injury was clearly regional in nature. However, while the Canadian government was quick to see the injustice of treating regional markets as national markets by other countries controlling dumping, it was not so quick to apply this part of the code domestically. Thus, Canadian law does not have an explicit regional exclusion clause.

The Tribunal has a chairperson, vice chairperson and three other members, of which three must be present for any one case. Decisions are by a majority vote of the three. The Tribunal has a relatively small support staff (22 were requested for 1977-78). Program expenditures were \$702,000 for 1977-78. However, the Tribunal has access to the full federal support system, including Statistics Canada. Moreover, investigation into the determination of dumping prior to the Tribunal hearings is carried out by a full revenue investigation. The hearings themselves have both open and closed sessions, the latter dealing with confidential business information. Although the Tribunal acts in response to a preliminary judgement by the Deputy Minister of National Revenue, Customs and Excise, the Tribunal is an independent body reporting through the Minister of Finance to Parliament. It submits an annual report to Parliament.

Since the Tribunal was established in 1969-70, the workload has grown, with a sudden increase in the number of cases after late 1976. Thirteen findings were handed down in 1976.

Whether the caseload will continue to increase is uncertain. While the current recession is encouraging protectionist moves, the recent decline in the value of the Canadian dollar may lessen the attractiveness of Canada as a dumping site. In addition, the scope of the Tribunal's authority may be broadened, since the federal government has issued regulations whereby investigations are made of subsidized goods from other countries, with the purpose of applying countervailing duties. The Tribunal will apparently be involved in this issue.

The Tribunal has found material injury in about 30 cases since its inception. Of a total of 50 countries whose companies were charged, the national breakdown was as follows:

<u>Country</u>	<u>Times Charged</u>
United States	14
Japan	10
Taiwan	4
South Korea, Hong Kong,	
Switzerland, France, U.K.	3
West Germany	2
Nine Others	1

It must be stressed that these countries are Canada's major trading partners. They are the countries on which Canada depends to expand its export markets, not developing countries as might be popularly supposed. Of the 30 cases, almost all involved Central Canada (several were Manitoba, however) and none of the domestic companies submitting complaints appear to have been based in British Columbia.

In one of its most recent decisions, the Tribunal ruled, in December 1977, that a number of foreign companies (from Japan, the United Kingdom, France, Luxemburg and South Africa) had dumped wide-flanged steel into the market normally held by Algoma Steel. Algoma is a Canadian company, and an Ontario based subsidiary of Canadian Pacific. British Columbia and Newfoundland had argued against the plaintiff on the grounds that Algoma was not active in their regions. However, the Tribunal declared that a regional market consideration was irrelevant in this case. It thus confined itself to determining injury to the domestic producer of wide flange steel,

without taking into account the damage that anti-dumping restrictions would cause to others in Canada. Beyond these regional problems, however, the Tribunal appears to function reasonably well. The Tribunal, unlike the Tariff Board, produces prompt decisions as a result of the 90-day requirement.

# 1. REGIONAL ASPECTS OF DUMPING REGULATION IN CANADA

For several reasons, the Tribunal's decisions may adversely affect the regions. Most of the complaints come from Central Canada where most of our domestic manufacturing occurs. Since those regions on the periphery pay a premium to buy domestic products, anti-dumping restrictions are certain to generally be more harmful to the West and the Maritimes than to Central Canada. Secondly, the decisions do not usually consider problems which an anti-dumping decision will cause beyond the geographical area which raised the case. The Canadian market is not large enough to support a large number of domestic producers, so that there is usually one domestic producer and all of Canada is considered its single domestic market. For instance, in one case in which raisins were declared to be dumped, a British Columbia industry which simply packaged raisin imports was not considered a domestic producer or industry on the grounds that it was too small.

In the case of Algoma Steel, British Columbia industries depended on offshore supplies, as they do for many goods. This dependence on offshore supplies has resulted from a freight barrier from domestic sources and supply limitations of domestic producers located in eastern Canada. These circumstances of location and capacity created a separate regional market in British Columbia, in which both sources and customers differed from those in Central Canada. Because competitively priced offshore imports were available to British Columbia certain industries have been able to develop in the province. These industries were able to compete for business in British Columbia and Alberta and, in return, the province gained jobs and income in the processing and sale of these goods in markets in British Columbia and Alberta. These income and employment benefits would not have occurred had a steady supply of competitively priced offshore steel not been available.



The nature of the British Columbia economy, extractive and export-oriented, determines its extreme vulnerability to world market conditions. The industrial base has been slow to develop, and industries which help to broaden the province's economic profile are essential to its sustained development. The net effect of the anti-dumping duty made in the Algoma Steel case may be to destroy British Columbia secondary industry established in a clearly separate market, in view of the fact that Japan retaliated against the procedure by cutting off supplies to British Columbia. The Tribunal was charged with the protection of domestic industry, but in this and other cases its terms of reference only allowed it to consider the domestic producer laying the complaint.

In the EEC countries and in the United States, there is encouragement of informal attempts to solve dumping issues, before legal procedures are commenced. Such informal efforts are apparently not undertaken in Canada, one reason being that such efforts might be construed as collusion. Thus the Deputy Minister of Customs, National Revenue and Excise, in his initial finding of dumping and the Tribunal itself settle most of the cases. The Tribunal bases its judgements on a strict interpretation of its mandate. The decisions of the Tribunal are frequently appealed. In five of six decisions appealed to the Federal Court in 1976, the decision of the Tribunal was upheld.

While the federal government has altered the previous decisions of the Tribunal, it has not done so before for the reason of regional accommodation. If the federal cabinet responds to British Columbia's current appeal to it, such a solution will obviously be desirable for this particular case. However, it is not certain if a precedent will be established for the Tribunal itself to take regional accommodation into account in the future (though it may well set a precedent for the Cabinet). Therefore, it will still be necessary to look at long-term changes. In the event that the Cabinet does not support British Columbia's appeal, the need to seek changes will be considerably more urgent. Generally, there is a need for more consultation with the provinces in the pre-crisis stage, rather than the present system, in which the federal government seeks to accommodate regional interests only after irreparable damage is done.



## 2. RECOMMENDATIONS FOR THE REGULATION OF DUMPING

Given the growing use of non-tariff barriers (NTB's) in the international economy, the federal government (in conjunction with the provinces) should review the potential effect of such barriers on Canada's trading position. If it were judged that NTB's constitute a significant threat to trade (as they almost certainly do) it might be desirable to make major institutional changes, in order to integrate decisions on tariffs and dumping into the ongoing governmental process. The Tariff Board and the Anti-Dumping Tribunal could be merged, and placed under the responsibility of the Minister of Industry, Trade and Commerce or Customs, National Revenue and Excise (although IT&C would be much preferable). The merged agency might be described as a "Trade Review Agency" whose staff would issue its own decisions on dumping and tariff reviews, after consultation with the provinces. The Appeals process could be made available to a broad spectrum of groups, rather than being limited to producers. The advantages to this radical restructuring are that decisions would no longer be made in isolation, using outdated or incomplete legal criteria. The decisions could properly be made by the staff of economists and perhaps trade lawyers, since such decisions involve primarily economic and technical issues, rather than judicial questions.

Alternatively, if the present system were maintained, certain reforms could be introduced which would generally help the provinces to initiate trade questions and so prevent the excessive use of the Tribunal. The reasons for trying to maintain but minimize the use of the Tribunal are that its extensive use may trigger international economic retaliation and that it is extremely difficult for the federal government to continually overthrow legal decisions after they have been formally reached.

It should be possible to encourage informal consultation among the industry and federal and provincial officials before commencing action under the Tribunal, (i.e. during the period in which the Deputy Minister of Customs, National Revenue and Excise is carrying out his investigation to determine dumping). Such consultation should be exempted from charges of collusion, since this type of consultation would be most valuable if it could reduce the chance of international retaliatory measures

Over the long-term, representatives to the Tribunal might be selected in consultation with the provinces, or the people chosen should be selected for their expertise. Those having vested interests associated with the Tribunal's work should be excluded.

Most importantly, there is a need for a better expression of regional problems in Canadian legislation since it should not be possible to find dumping generally, if one region in no way affects the situation. Improvements could be sought by clarifying existing provisions for regional accommodation, or by promoting some new general provisions which would indirectly help the regions. Using the first approach, Article 4 of the GATT Anti-Dumping Code could be fully reproduced in the Anti-Dumping Act, rather than just being referred to, as is the case now with Article 15.4. Since even Article 4 does not entirely reflect the Canadian problem of a single producer, other changes in the Act would have to be made to reflect the fact that transport costs and special regional marketing conditions may create separate markets in which one producer sells almost none of a good. Using the second approach, some general changes could be made to indirectly, though perhaps no less effectively, protect the regional interest. For instance, the Tribunal could be required to consider what material injury would be caused by the imposition of anti-dumping duties. Exclusion could be stressed for semi-manufactured goods undergoing further processing in Canada. Alternatively, a sectoral approach could be followed, such as the trigger pricing system suggested by British Columbia for steel imports.

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MONETARY AND EXCHANGE RATE POLICY

Background Paper

Ministry of Economic Development

January 1978



# MONETARY AND EXCHANGE RATE POLICY

## Background Paper

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## SECTION I

### Recent Canadian Monetary History: An Example

Of all instruments available to the Federal Government for directing the course of economic activity, monetary policy has been least understood. In recent times, 1950-1977, it has been believed that monetary policy (1) had little impact on real economic variables in the economy; (2) was weak, but could be used for fine tuning through regulation of credit conditions and interest rates; (3) was very powerful and could be used in the short run to influence the economy through interest rates; (4) was very powerful but far too unpredictable to use in short-term stabilization. The dramatic shift in opinions concerning monetary policy has been due, in part, to extensive theoretical developments by monetary economists, but mainly because the economy has been characterized by coincident bouts of double digit inflation and historically high unemployment (i.e. stagflation).

Perhaps 1969 is the most appropriate starting point for a rapid review of relevant events. In 1969 the Canadian government was intent on reducing the rate of increase in prices which, at that time, approached 5%. The two prongs of this attack were tough monetary restraint and the Prices and Incomes Commission.

In the course of this monetary restraint, high and rising Canadian interest rates attracted capital flows from abroad, particularly the United States. Canada had maintained a fixed exchange rate since 1962, and the capital inflow put considerable upward pressure on the exchange rate which was offset by selling Canadian dollars through the Foreign Exchange Fund and then reducing Government of Canada deposits in the chartered banks to prevent an increase in the money supply. There was clearly a limit to this practice and on Sunday, May 31, 1970, Canada reverted to a "flexible exchange rate", allowing the dollar to appreciate.

At this stage, monetary authorities should have learned a valuable lesson. It is impossible to direct monetary policy

towards domestic stabilization (i.e. controlling prices, interest rates, etc.) and control of the exchange rate at the same time. Unfortunately, five years would pass before this point was realized.

After the 1970 float, monetary authorities did a quick about face, turning from tight monetary policy to combat inflation to monetary expansion to ensure that the "floating rate" stayed within a suitable range. Instead of letting the exchange rate seek its market level, while using the freedom flexible rates imply to pursue an independent monetary policy, monetary authorities embarked on a course of double digit monetary increases which were unwarranted and ultimately disastrous. Table I shows that the money supply defined as currency in circulation plus demand deposits ( $M_1$ ) grew at extremely high rates after 1970. This was also the case for  $M_2$  an alternative measure of the money supply defined as currency in circulation plus time and demand deposits. (NOTE: Both  $M_1$  and  $M_2$  exclude government deposits). The rate of inflation started to climb in 1972, reaching a peak of 14.3% in 1974 and averaging 10.9% from 1973-1976. The lag between the increases in the money supply and the rate of inflation reflected the time taken for the monetary increases to work their way through the economy.

TABLE I<sup>1</sup>

Year	<u>Percentage Changes</u>			
	<u><math>M_1</math></u>	<u><math>M_2</math></u>	<u>Inflation Rate</u> <u>GNE Deflator</u>	<u>GNP at</u> <u>Constant Prices</u>
1969	7.4	9.7	4.4	5.3
1970	2.3	5.5	4.7	2.5
1971	12.8	14.4	3.1	6.9
1972	14.0	17.6	5.0	6.1
1973	14.4	13.4	9.2	7.5
1974	9.7	20.0	14.3	3.7
1975	13.8	17.5	10.7	1.1
1976	7.9	17.0	9.5	4.9

1. Source: Bank of Canada Review, September 1977, Table 1.

### Understanding Monetary Policy and Monetarism

At some point in the stagflation process monetary authorities realized that their view of how changes in the money supply impacted upon the economy was distorted. It had been believed that the main target should be nominal interest rates which, in turn, would influence consumption and investment in the private sector and lead to changes in output and/or prices. The experience of the 1970's with its unacceptably high rates of inflation and unemployment combined with the entrenchment of widespread expectations that chronic inflation would persist caused monetary authorities to consider the view that changes in the money supply had a much more direct influence on the economy. In particular it was argued by many economists that rates of increase in the money supply that were too far in excess of the rate of increase in real growth in output (GNP) would cause inflation. As shown in Table I, during the period from 1970-77, the rates of increase in the money supply (however it is defined, i.e.  $M_1$  or  $M_2$ ) have been from two to seventeen times greater than the rates of increase of GNP at constant prices. This fact serves as evidence for the proponents of monetarism in their criticism of past monetary policy. Monetarism, like any theory or philosophy, has many nuances in meaning, especially when translated into policy. An attempt will now be made to clarify the meaning of monetarism and indicate the policy implications which arise from that concept.

The essence of the concept of monetarism concerns the way increases in the money supply work their way through, and ultimately impact upon the economy. The prevailing economic belief for about two and a half decades has been that changes in the money supply cause a change in interest rates through the changes which take place in the portfolios of financial securities. The change in interest rates then cause changes in real investment and that in turn causes a change in aggregate demand which results in a change in output and/or prices



depending upon excess capacity and structural conditions in the economy. This scenerio is part of what is termed 'Keynesian economics' or sometimes the 'New Economics'. It is the role that economists interpreted for money from the famous book The General Theory of Employment Interest and Money written by J.M. Keynes in 1935. Whether or not this is the role Keynes really saw for money is of little importance for this discussion, since it was interpreted as outlined above and ultimately translated into policy. 'Keynesians' believed they could 'fine tune' the economy by changing the rate of increase in the money supply which through the interest rate mechanism influenced investment and ultimately output and/or prices. 'Keynesians' also felt that monetary policy was quite predictable although not always strong enough to stabilize the economy particularly in deep recessions.

The monetarist economists did not dispute the fact that changes in the money supply would cause changes in interest rates, however they felt the Keynesians took too simplified a view of the situation. In particular they depict the economy as a group of asset holders who adjust their portfolio of assets to equalize the rates of return they derive from these assets. The range of assets considered stretches all the way from cash, bank accounts, financial securities, to consumer durables, cars, houses, etc. Each of these items yields the holder a service, a rate of return, and although most of these rates (called own rates of interest) are not published or readily observable they are none the less real. When the money supply increases someone must hold more of this particular asset which causes the rate of return from holding this asset to drop. In the process of once again equalizing the rates of return on all assets, which have been disturbed by the change in the money supply, expenditures take place on a whole range of items. Note the difference in the range of expenditures that will eventually take place compared to the Keynesian explanation.

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Since the mechanisms through which money affects the economy are complex involving hundreds of thousands of mostly unobservable 'own rates of interest' which in turn cause

expenditure changes, the impact of changes in the money supply on the economy becomes uncertain with regard to timing, size, and location. The lags between changes in the money supply and ultimate impact on the economy are long and variable. The strength of the impact of a given change in the money supply can have wide variability but is far more powerful than Keynesians normally believe. Given the myriad of own interest rate adjustments the sectoral impact is uncertain. In the past the uncertainty arising from the complexity of the monetary mechanism has been compounded by the tendency for monetary authorities to make serious errors in both the magnitude and timing of monetary policy due to their erroneous perception of where the economy is in the business cycle, and an incorrect belief as to the impact their policy will ultimately have. The prescription for monetary policy which follows from the theoretical basis of monetarism, empirical evidence, and a track record of blunders by those in control of the money supply is that the money supply should increase enough to accommodate economic growth without an unacceptable rate of inflation rather than in a 'discretionary' interest rate targeted manner based on faulty theory and an often distorted factual perception of the economy.

The monetarist prescription is often stated more strictly as a 'rule' which would allow the money supply, appropriately defined, to grow at a rate equal to the trend rate of growth of GNP. However the exactness of the monetary rule depends upon the situation. Over time the structure of the economy changes, payments mechanisms change, institutional arrangements change, and random shocks are often imposed from outside of the system. To take account of these and other factors the type of 'monetary rule' applied should have some flexibility. For example this flexibility could mean that the money supply would increase within a 4% band around the trend rate of economic growth. In addition to some flexibility, the imposition of a monetary rule obviously takes time, especially when past rates of monetary expansion have been excessive, to avoid shocking the economy into a recession. Nevertheless some



form of monetary discipline is necessary if reasonable price stability is desired and given the present state of economic theory and our record of past monetary policy performance, the best form for this discipline to take is some variant of a monetarist rule.

### Inflation and Expectations

It is often difficult to understand strong monetarist statements such as, "Inflation is solely and entirely a question of the quantity of money and is not a necessary consequence of any kind of political or other action" (Von Hayek 1975) and "Inflation is always and everywhere a monetary phenomenon" (Milton Freedman 1968), in light of recent debates concerning inflation. In its early stages the inflation debate often centered on business and labour. Business was accused by labour of increasing its profit share through unwarranted price increases while labour was accused of demanding excessive wage increases leading to cost-push inflation with business merely passing along the increased costs in the form of higher prices. Both business and labour expected (and were correct) that monetary authorities would accommodate accelerating increases in costs and prices with increasing amounts of money. Moreover as time passed expectations about an ever-increasing rate of inflation in future were built into demands of both business and labour creating a self-fulfilling prophecy. However this inflationary spiral could only continue with the vigor displayed in the mid 1970's if monetary increases fueled the fire. It is in this sense that inflation is solely a monetary phenomenon. Excessive monetary increases can trigger an inflationary period which will be strengthened by inflationary expectations on the part of business and labour. However, the inflation cannot persist without continued monetary expansion.

Again the 1969-1970 experience in Canada provides an example. In 1969 monetary authorities were trying to restrain price increases through tight monetary policy and hence prevent the kind of "expectations spiral" which eventually leads to excessive



wage and price increases. Had this policy been pursued after the dollar was supposedly allowed to float, then Canada's price and wage performance would have been considerably better than that of her major trading partners. At the time, it was argued that if the exchange rate appreciated considerably above parity with the American dollar Canada's competitive position on international markets would be seriously eroded. While in the short run this is true, could anyone now argue that Canada would not have been better off to let this happen while wages and costs increased in line with productivity? If this had happened, Canada's competitive position would have been assured in the longer term. Instead, monetary authorities allowed excessive increases in the money supply, holding the exchange rate near parity with the U.S. dollar, and in effect imported the inflation rates and expectations that have proven so disastrous.

#### Current Monetary Policy: The Bank of Canada

On September 22, 1975, the Governor of the Bank of Canada announced that "Whatever else may need to be done to bring inflation under control it is absolutely essential to keep the rate of monetary expansion within reasonable limits."<sup>2</sup> In the weeks following this speech the details of the Bank's "monetarist" type policy became clearer. The Bank would aim to steadily reduce the rate of growth in currency plus chartered bank demand deposits ( $M_1$ ) until it became more in line with the real rate of growth of the economy. The actual range defined, over the year following the announcement, was to be between 10% and 15%. This was still far in excess of the real rate of growth of GNP, but a policy of gradualism was recognized as necessary since a sudden reduction in the rate of growth in the money supply would have imposed a serious recessionary shock on the economy. In light of their new monetary stance the Bank of Canada also realized that "the pursuit of a policy of stable monetary expansion requires that

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2. Bank of Canada Review, October, 1975.

interest rates and the exchange rate be allowed scope for such movement as may be needed in either direction."<sup>3</sup>

The first year of the Bank of Canada's new monetary policy coincided closely with the first year of the Anti-Inflation Program. During the first part of the year the rate of growth of  $M_1$  stayed higher than the upper limit set by the Bank but dropped off through spring and summer 1976 allowing the Bank to achieve its target of between 10% and 15% growth in  $M_1$ . The mid point of this range, 12%, would have allowed (on the basis of past performance) an increase in nominal output of about 13%. This in turn would have allowed real output growth of 5% and inflation of 8%. This coincided with the target set by the AIB from October 1975 to October 1976.

In August 1976 the Bank of Canada announced that the target rate of monetary expansion would be reduced to a range of 8% to 12% from a three month base centered on March 1976. Although there was considerable fluctuation in the path of  $M_1$  over the period this target was achieved and in October 1977 the new target of between 7% and 11% was set by the Bank of Canada for the coming year.

It would appear that the Bank of Canada has had relative success in attaining its monetary targets while at the same time recognizing that it would be unwise to be too rigid in its application of monetary restraint particularly in view of sharply rising food costs and the impact of the depreciation of the exchange rate. Although prices have risen faster than expected in 1977 this is in great measure due to the aforementioned food costs and lower valued Canadian dollar. Despite this the two year average (1976 and 1977) of price increases is still below the Anti Inflation Program's targets.<sup>4</sup> In conclusion the Bank of

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3. Bank of Canada Review, April, 1976.

4. "Two Years of Monetary Targeting", Scotia Bank Monthly Review, November 1977.

Canada's emphasis on a controlled and decelerating rate of monetary expansion has had considerable success and in general should be supported as part of the longer term strategy for recovery from stagflation.

#### Roadblocks to Implementation: Technical Issues and Government Financing Requirements

While the current philosophy of the monetary authorities appears to be in the right direction, there are difficulties with implementing these rational intentions. The first of these concerns the Bank of Canada itself. The second, and perhaps the more important of the two, concerns financing requirements of the Federal Government.

#### Technical Issues

While there is general agreement that the money supply must be restricted if inflation is to be controlled, there is not agreement about exactly what constitutes the money supply. The Bank of Canada attempts to control  $M_1$ , (currency and demand deposits), but some economists argue that the theoretical implications of their monetarist philosophy indicate that  $M_2$ , (currency, demand deposits, and time deposits) or some other broad definition of the money supply should be the operative concept. It is interesting to note that while  $M_1$  grew by 7.9% in 1976, well within the set limits,  $M_2$  grew at 17%, which is obviously an excessive expansion if  $M_2$  is in fact the better definition of the money supply.

In addition to the controversy concerning the most appropriate definition of the money supply there is criticism over the way in which the Bank of Canada attempts to control  $M_1$ . There is considerable evidence that the Bank tries to control  $M_1$  through interest rates (the demand side) rather than through the supply side. This may cause excessive swings in monetary aggregates and interest rates. Critics of the Bank's approach



suggest that a more direct method would be to monitor the monetary base (currency in circulation and chartered bank reserves with the Bank of Canada.) These economists claim that the Bank's interest rate control method is a left-over from its traditional approach to monetary implementation.

#### Government Financing Requirement

Since 1974, the Federal Government has created an enormous financial requirement. In 1973 the Federal net financing requirement stood at \$15 million, jumping to \$1.8 billion in 1974 and then to \$5 billion in 1975 and \$4.6 billion in 1976.<sup>5</sup> On October 20, 1977, Jean Chretien indicated that the estimate for 1977 is a whopping \$8.8 billion.

The implications of a large net financing requirement are threefold. First, if the Federal Government borrows from the Canadian public, then this will mean higher interest rates, potentially "crowding out" the private sector. Second, the requirement can be financed abroad which could have a significant impact on the exchange rate; specifically, it would tend to overvalue it. In this case, private investors will be faced with lower interest rates than they would have if the government financed at home, but the overvalued exchange rate would erode Canada's short run competitive position.

Third, the government can resort to selling bonds to the Bank of Canada. This amounts to 'printing money' and implies an excessive monetary expansion if huge amounts of finance are involved. This point has critical implications for the monetary policy currently being attempted by the Bank of Canada. If the Bank of Canada is forced to monetize (buy bonds from the federal government) an excessive amount of government debt due to its large net financing requirements then it may not be able to achieve its

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5. Bank of Canada Review, September 1977, Table 2.



monetary restraint targets. Thus the net financing requirement of the federal government could operate as a dangerous constraint to monetary control in Canada.

The solution to these problems is a combination of reducing the government's net financing requirement to a size which does not impinge either on an independent monetary policy or on private sector borrowing requirements, and financing this smaller sized debt when credit conditions are slack, backing off when a recovery begins and credit demands increase.

#### Government Deficits Versus Net Financing Requirements

When considering the solutions proposed at the end of the preceeding discussion it is important to distinguish between deficit financing and the net financial requirement of the government. In essence, the government borrows to (1) cover operating deficits on revenue and expenditure transactions as reflected in the National Income and Expenditure Accounts, (2) to acquire funds to 'roll over' maturing debt from the past, (3) to acquire funds to be used for the purchase of debt instruments from crown corporations and other agencies, (4) to purchase foreign exchange, (5) to build up cash balances. The first of these reasons, borrowing to cover the difference between government operating expenditures and revenues constitutes deficit financing in the usual sense of the term. However any or all of the five reasons for borrowing can cause an excessive expansion of the money supply. Hence the Net Financing Requirement (NFR) is the relevant concept when investigating possible pressure for monetary expansion.

As a further illustration of the importance of this distinction note that on a National Accounts basis, considering 'deficit financing' as defined in (1) above, the federal government had five surplus years between 1966 and 1976 with the largest deficit being \$3.6 billion. However the net financing requirement

over the same period shows only one surplus year and consecutive borrowing requirements (1975-76) of nearly \$5 billion.

Finally this discussion has important implications for the use of fiscal policy in stabilizing the fluctuations of the economy over the business cycle. Since this paper has advocated that monetary policy not be used for short term stabilization, this leaves only fiscal policy as a short term discretionary instrument. Yet in the previous discussion it was argued that the government's net financing requirement should be reduced. This apparent contradiction is in fact not a contradiction at all for two reasons. First, in principle, the government could run deficits for the purpose of stabilizing the economy through fiscal policy without increasing the money supply. Further this should not cause excessive crowding out or interest rate hikes if the economy is in a recessionary period. Second the portion of the net financing requirement that would arise because of fiscal policy has not been large in the past, and should not cause problems if other components of the NFR are reduced. Consider Table II below:

TABLE II<sup>6</sup> - (Billions of Dollars) (Deficit +, Surplus -)

Period	Cumulative NFR	Components of NFR			
		Cash Balances	Foreign Exchange	Advances and loans	Operating Revenue & expenditure transactions
1970-74	\$10.7 billion	3.3	1.9	6.4	-1.0 (Surplus!)

The table shows that there was actually a \$1 billion surplus over the period 1970-74 on government operating and expenditure transactions. Unless drastic changes in the components of the NFR occur, the operation of fiscal policy for stabilization purposes should not put pressure on the money supply even if the requirements for this purpose were large.

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6. Crozier, R.B. "Inflation, Government Financing, the Money Supply and the Fiscal Setting: A review of the Evidence", Ottawa 1976.

## Section I: Summary and Conclusions

The discussion in Section I of this paper has suggested that monetary policy can potentially contribute to a very large extent in clearing up our economic problems. Against a background of steady, but moderate, monetary growth, the inflationary expectations generated both in labour and business can be wound down. The combination of reasonable cost/price increases and an exchange rate which is free to float downward will ensure that Canada's competitive position is not eroded. Specifically the foregoing analysis suggests the following points as important in setting the proper tone for economic recovery from stagflation:

Monetary authorities should follow a policy of reducing the rate of growth in the money supply (sufficient to reduce inflation), while still allowing scope for growth in output and employment.

Current Bank of Canada monetary policy (since September 1975) should in general be supported since it is attempting to achieve the objective outlined above by reducing the rate of growth in the money supply according to announced targets. The Bank of Canada must quickly sort out which monetary aggregate it should control and how best to control it.

Monetary authorities must not lose sight of the fact that they cannot use monetary policy to control inflation, interest rates, and the exchange rate at the same time. In particular the exchange rate should normally be allowed to find its own level.

The Federal Government should reduce the absolute size of its net financing requirement to prevent crowding out the private sector, overvaluation of the exchange rate through foreign borrowing, and especially to prevent the potential distortion of the monetary policy advocated above.

Regardless of the absolute size of the government financing requirement, it should borrow in recessions and ease out of the market during recoveries.

The implementation of the above policies, specifically monetary restraint and a reduction in the net financing requirement of the federal government is compatible with the use of fiscal policy for stabilization purposes.



## SECTION II

In Section I of this paper the emphasis was placed on the importance of following a monetary rule. As illustrated there, if a monetary rule is followed then monetary policy cannot be aimed at exchange rate control. That is, monetary policy cannot be used to fight domestic problems such as inflation and at the same time be used to control the exchange rate particularly through interest rate manipulation which in turn influences the exchange rate through the capital account of the balance of payments. The logical extension of this argument is that monetarism would be accompanied by a floating exchange rate.

This paper will focus on issues which arise when relatively small open economies allow exchange rates to float. Potential difficulties of monetarist style monetary policy used in conjunction with a floating exchange rate will also be addressed. This discussion by necessity involves fiscal policy as well. If monetary policy is conducted to ensure long run price stability, and the exchange rate is allowed to float then fiscal policy alone remains as a truly discretionary instrument for 'smoothing out' business cycle fluctuations. Hence stabilization policy becomes fiscal policy, and it is important to understand the implications that this has for its effectiveness when teamed with a monetarist rule and a floating exchange rate.

### The Balance of Payments and the Exchange Rate

This section of the paper identifies the components and linkages that exist between the balance of payments, the exchange rate, and the economy in general. The material serves to clarify the issues involved and provides a background for the more detailed arguments which follow later in the paper. Readers who are well versed in the format of the Balance of Payments and the linkages between its components and the exchange rate should proceed directly to the next topic.

Canada's balance of payments consists of double entry bookkeeping statistics which record all transactions taking place between Canadians and the rest of the world. The items listed in the balance of payments accounts underlie the demand for, and supply of currencies and hence are vital in understanding disturbances which take place in this market.

The key rule in the accounting framework is to record as a credit any transaction resulting in a receipt from the rest of the world, and as a debit any transaction resulting in a payment to the rest of the world. This framework is broken down into two classes of transactions called the current account and the capital account. The current account includes transactions that either yield national income or result from its expenditure. It embodies merchandise trade, services, and interest and dividends earned from capital investments. The capital account records the balance of financial claims between Canadians and foreigners. This account includes direct investment, long term portfolio investment and short term capital flows. Direct investment occurs when capital movements involve control over a business enterprise. Long term portfolio investment means security transactions with original term to maturity greater than one year with no control involved (for example American purchase of Provincial bonds). Short term capital flows involve securities with original maturity less than one year, and shifts in liquid funds (cash).

Both the current and capital accounts record the net balances of credits and debits. Finally the net figure from these accounts gives the balance of payments position before government accommodating transactions are considered. In an accounting sense the balance of payments must balance and these official or accommodating actions by authorities achieve this balance.

As an illustration of the preceeding explanation consider Tables I & II. Table I shows Canada's overall record of foreign transactions for 1976. The sum of rows (9) and (10) show that Canada had a surplus on its Balance of Payments for 1976 with total credits exceeding total debits. Table II breaks these totals down into their constituent balances. It reveals that while the trade balance was in surplus, the overall current account was four billion dollars in deficit due mainly to interest payments to foreigners and Canadians travelling abroad which shows up under services. The deficit on current account was more than made up by a capital account surplus (roughly speaking borrowing by Canadians from foreigners exceeded lending by Canadians to foreigners) shown in row (f), resulting in an overall Balance of Payments Surplus of \$522 million. Hence Canada's international reserves increased by a like amount shown by row (g). If it had turned out that Canada had a deficit then an accommodating capital movement would have been made to cover this deficit resulting in a decline in official reserves.

These tables relate directly to the demand for and supply of Canadian dollars and hence the exchange rate. In Table I, items (1), (2), (3), and (4) constitute the autonomous demand for Canadian dollars (conversely the supply of foreign exchange) while items (5), (6), (7), and (8) make up the supply of dollars (the demand for foreign exchange).

Using this information consider diagram I which shows the demand and supply curves for Canadian dollars and the price of Canadian dollars in terms of U.S. dollars (exchange rate) as well as the market clearing quantity of dollars. In the case of merchandise trade for example, the linkage is obvious. The price-wage-profit-cost conditions prevailing in an industry will influence the export performance which in turn will influence the export performance which in turn will influence the exchange rate. Causality obviously runs in the opposite direction as well with changes in the exchange rate impacting on export performance regardless of internal industry conditions.



TABLE I  
Canada's Balance of Payments<sup>7</sup>  
(Millions of dollars) 1976

<u>Credit (+)</u>		<u>Debit (-)</u>	
(1)	Exports (merchandise) + 37,975	(5)	Imports (merchandise) - 36,886
(2)	Exports (services)* + 7,410	(6)	Imports (services)* - 13,208
(3)	Transfers (gifts) + 1,489	(7)	Transfers (gifts) - 967
(4)	Capital Receipts ("borrowing") + 6,729	(8)	Capital Payments ("lending") - 2,020
(9)	TOTAL + 53,603	(10)	TOTAL - 53,081

TABLE II  
Constituent Balances

(a)	Balance of Merchandise Trade (rows 1 and 5)	+ 1,089
(b)	Balance of Services (rows 2 and 6)	- 5,798
(c)	Balance of Transfers (rows 3 and 7)	+ 522
(d)	Balance on Current Account (sum of a, b and c above)	- 4,187
(e)	Balance on Capital Account (rows 4 and 8)	+ 4,709
(f)	Balance of Payments (sum of d and e)	+ 522
(g)	Accommodating Transactions (changes in official international reserves)	+ 522

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7. Adapted from the Bank of Canada Review, September 1977.

\* Services include such items as shipping, travel, interest and dividends, and some minor items.



DIAGRAM 1

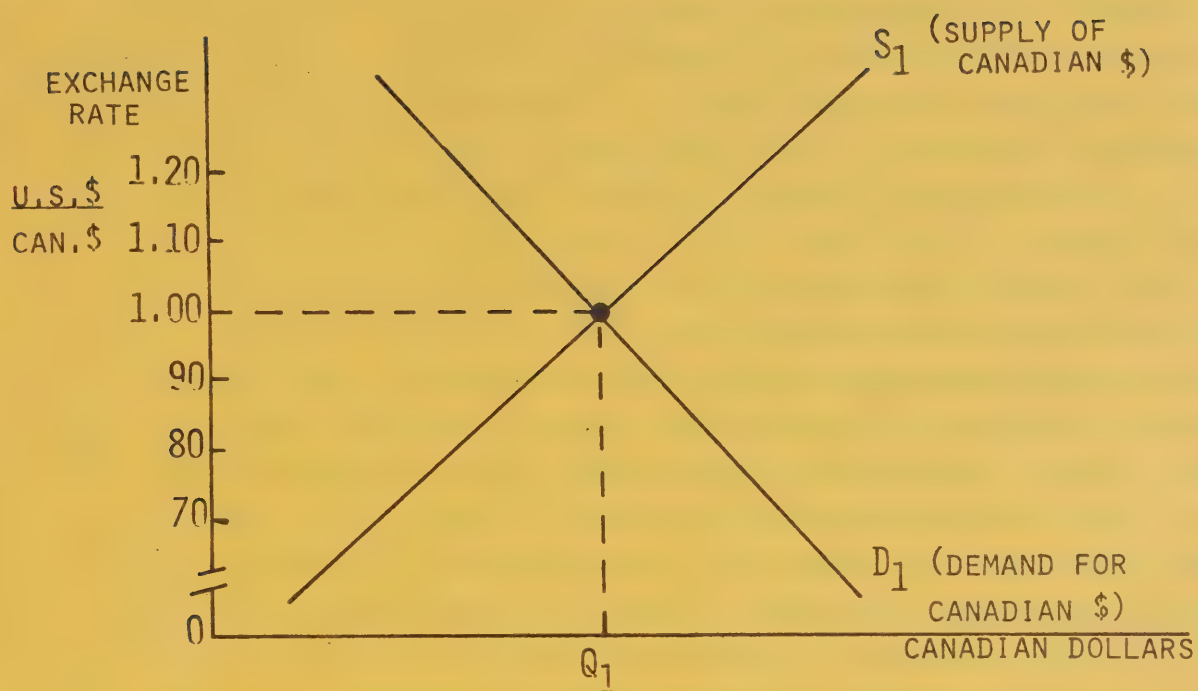
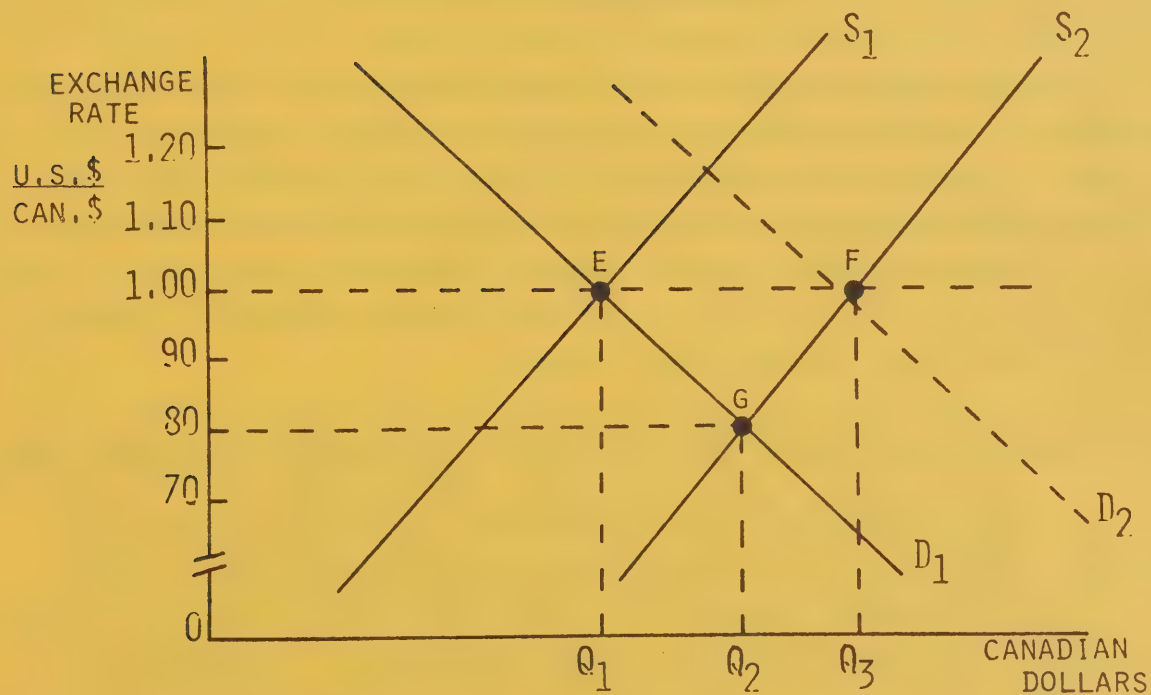


DIAGRAM II



Whether the exchange rate is fixed or floating the underlying components of demand and supply exert pressure for movement. For example, in diagram II if authorities try to peg the exchange rate at \$1.00 U.S. = \$1.00 Canadian the market will clear as long as  $D_1$  and  $S_1$  are the relevant curves. However if  $S_1$  shifts to  $S_2$  due to an increase in Canadian demand for imports for example, then there will be downward pressure on the exchange rate. If the exchange rate is allowed to depreciate then the markets for Canadian dollars will clear at (G) and  $Q_2$  as imports become more expensive and at the same time our exports become more attractive. If authorities wish to hold the exchange rate at its old level, then this implies official reserves will be run down to the extent (EF) to cover the deficit on the balance of payments. The central bank by intervening in the foreign exchange market demanding dollars and supplying foreign exchange could shift demand to  $D_2$  and hence maintain parity with the U.S. dollar. This example illustrates only one method of maintaining a fixed exchange, but its importance is reflected in the most common definition of alternative exchange rate regimes. Under fixed exchange rates the central bank intervenes in the exchange market by buying and selling reserves to maintain the fixed rate. Under floating rates there is no intervention to fix the rate although this does not preclude autonomous (transactions undertaken for ordinary commercial movities) purchases and sales of foreign exchange. Note that there are many variations on the theme of floating exchange rates. Exchange rates are sometimes referred to as flexible, flexible within a band, crawling pegs, adjustable pegs, etc. Floating in this paper means the 'freest or cleanest', intervention-free, exchange rate regime.

#### A Floating Exchange Rate, International Competitiveness and Monetarism

One of the strongest arguments for floating exchange rates is that external balance will be achieved automatically. That is the exchange market will clear, i.e. move to 'equilibrium', at some new exchange rate in response to shifts in demand and supply for dollars.

For example, in diagram II the exchange rate would have fallen to (G) in response to a shift in the supply of dollars from  $S_1$  to  $S_2$ . However, this does not mean that the exchange rate that eventually prevails will necessarily be the one which is deemed desirable by various sectors within the economy, nor will it assure the desired balance of payments composition.

To understand this point, consider the following example. Suppose that there is a shift in the international terms of trade against Canadian exports. This will have the effect of reducing the demand for Canadian dollars creating an excess supply of dollars at the prevailing rate. Other things being equal this will signal a depreciation in the exchange rate making Canadian exports more competitive again. However, if there is at the same time an increase in Canadian borrowing abroad, creating a capital inflow, this will tend to force the demand for Canadian dollars upward. If this force is strong enough an excess demand for dollars will be created causing the exchange rate to appreciate thereby worsening the situation on the current account. This example is not only plausible, but in many respects accurate as far as much of the post 1970 Canadian float period is concerned.

While this example serves to caution those who see floating exchange rates as a panacea it should not distort the fact that the above problem may not be pervasive over time, nor does it negate other positive attributes of floating rates considered later. To clear up the doubt created by the first example consider the following quote:

"Whereas the short-term behavior of the exchange rate can be seen as a consequence of the requirements of instantaneous equilibrium in the market of financial assets, the long run development probably has to be explained by reference to the relative commodity-price levels in the countries concerned. The short run and the long run may then be tied together via the interaction over time between the flows in the current account, the accumulation of financial assets in different denominations, and the price trends in various countries, which presupposes a realistic treatment also of the labour market and wage formation."<sup>8</sup>

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8. Lindbec, Assar, "Approaches to Exchange Rate Analysis", The Scandinavian Journal of Economics, Vol. 78, 1976. pp. 136-137.



This quote illustrates the point that while short term fluctuations in the exchange rate may not reflect underlying economic conditions, in the longer term a floating rate will in fact do so. Hence it is particularly important that domestic policy be geared to ensuring that inflation-unemployment-growth problems do not render the economy uncompetitive. This brings us back to the argument that exchange rates must float if monetary policy is to be directed at internal price stability.

If the government tries to fix the exchange rate then intervention in exchange markets in response to excess demand and supply pressures will be necessary. This type of action, illustrated earlier in the paper, has repercussions on the domestic money supply unless it is offset by open market operations or by changing government deposits with the chartered banks. These types of action clearly have limits, particularly in the latter case, since prolonged use may run down government deposits with the chartered banks.

A more subtle way of controlling the exchange rate is to direct monetary policy in such a manner that Canadian interest rates, and demand for money and credit are in line with world (particularly the United States) financial policy. Since capital movements are sensitive to interest rate differentials between countries this alignment will eliminate major pressure on the exchange rate from this source. Of course if pressure upward or downward is desired to help maintain a given rate, monetary policy can be directed at achieving this goal. However this by necessity means abandoning other goals and by now it should be clear that monetary policy cannot be used to control both the exchange rate and domestic inflation. Since there is considerable evidence that price stability can only be achieved through appropriate monetary policy, and since price stability is essential to Canadian competitiveness, and, finally, since the exchange rate, if allowed to float, will eventually reflect our relative competitiveness, it is imminently logical on these grounds to follow a course of monetarism and floating exchange rates.



### The Floating Exchange Rate as an Insulator

It has been argued that a floating exchange rate regime will insulate an economy from external economic disturbances. Perhaps this argument can best be illustrated by a simple example. Suppose that the rate of inflation among Canada's trading partners becomes higher than the rate prevailing in Canada. Focusing on the import side of the balance of trade, the higher prices of imported goods will be translated directly into the Canadian price level if exchange rates are fixed. Further, there will probably be an increased demand for Canadian exports, which, depending upon the capacity situation, could also exert inflationary pressure. However, if the exchange rate is free to move, then excess demand for Canadian dollars, created by increased demand for exports and reduced demand for imports, will cause the exchange rate to appreciate. This means that while foreign goods have inflated prices in terms of foreign currency, a Canadian dollar will now buy more foreign currency than before due to the appreciation of the exchange rate. If the relationship were proportional, then a net increase in foreign prices of 5% would result in an appreciation of the dollar of 5%. On the export side, the appreciation would slow down export demand relieving inflationary pressure on the economy from that source. While this example is highly simplified, it serves to illustrate the forces at work in the insulating process.

Although there is every indication that a floating exchange rate will tend to insulate the home economy from foreign economic disturbances, this does not mean that the neutralization will always be complete. The effectiveness of the neutralization process depends to a great extent upon the type of foreign economic disturbance being confronted. For example, a small open economy, faced by a general rise in the world price level, will usually be insulated by a proportional appreciation of its currency, hence compensating for the world price rise as

goods and services pass over the border.<sup>9</sup>

If the disturbance took the form of a sudden increase in demand for our export products, then domestic income will rise, the exchange rate appreciates, export sales will be dampened, imports will increase, and the original impetus for these changes will be somewhat mitigated. However, relative prices will have been altered, incomes and wealth changed, resources are reallocated, and insulation will be incomplete unlike the previous example.

Another example of difficulties with this mechanism is the case of an essential product like oil. If a country is faced with price rises in an imported commodity like oil and not enough of this product is produced domestically to allow a switch away from imports, then a price shock will be felt in the economy. In fact, pressure will be put on the exchange rate to depreciate rather than appreciate if demand for the product under consideration is sufficiently inelastic and the magnitude involved quite large. This example does not nullify the overall insulation argument, but merely points out the fact that an open economy is open to some extent regardless of the exchange rate system.

Finally, it has been argued that disturbances from foreign countries, which enter the Balance of Payments through the capital account, can cause inflation and/or unemployment to be imported even with a floating rate.<sup>10</sup> For example, foreigners could increase their demand for our securities, causing an appreciation of the exchange rate which would diminish aggregate demand, signal resource allocation, and possibly cause transitional unemployment. If the demand for securities moved in the opposite

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9. Cooper, Richard N. "Monetary Theory and Policy in An Open Economy," Reserve Bank of Australia's Conference in Monetary Economics, 1975, reprinted, Op. Cit., see footnote 6.

10. Ibid, pp. 159-161.

direction, then inflation could be triggered as import prices rise, and perhaps factor prices as well. While this argument is plausible, there seems to be little practical evidence to support it and there are indications that the proposition is not consistent with observed fact.

"It is argued . . . that disturbances arising from portfolio shifts will be aggravated by floating exchange rates, but if we have learned anything from portfolio theory it is that such shifts must be temporary, or one shot adjustments. Therefore speculation will tend to offset their effects and prevent or attenuate destabilizing effects on real variables." 11

From the preceding discussion concerning insulation of the economy from foreign economic disturbances through a floating exchange rate, it can be concluded that a floating rate will, in general, reduce the variability of income and prices in the home country although neutralization need not be complete. Since the exchange rate must float if monetary policy is to be directed at controlling inflation, this conclusion turns out to be a bonus.

#### Floating Exchange Rates, Capital Flows, and Stabilization Policy

The final section of the paper addresses the feasibility of using fiscal policy as a national income stabilizing instrument when capital is mobile and the exchange rate is allowed to float. Interest has been renewed in determining the effectiveness of various instruments of stabilization policy under various sets of circumstances due to (a) the increased frequency and amplitude of disturbances to macro-economic stability in national economies, (b) the great increase in the international movement of capital, and (c) the movement of many currencies since March 1973 from fixed to floating exchange rates. All three of these events are of particular relevance to Canada.

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11. Black, Stanley, W., "Comment on R.N. Cooper, Monetary Theory and Policy in An Open Economy," Scand. J. of Economics, 1976, pp. 167-168.



The conventional wisdom concerning the topic under consideration is derived from the work of Fleming<sup>12</sup> and Mundell<sup>13</sup>.

Fleming reached three conclusions: (1) Monetary policy is more effective at stimulating nominal income under flexible than fixed exchange rates, (2) Monetary policy is relatively more effective than fiscal policy under flexible exchange rates as compared to fixed rates, and (3) Fiscal policy may or may not be more effective (or effective at all) under a floating exchange rate than it is under a fixed exchange rate, depending upon the sensitivity of capital movements to interest rate changes.

The first result follows because, under fixed exchange rates, some stimulus will leak away to other countries through imports while under flexible rates this leakage will be slowed by the ensuing exchange rate depreciation which damps imports and encourages exports. Moreover, if capital is mobile the downward pressure on interest rates caused by the monetary expansion will lead to capital outflows, further extenuating the depreciation.

The second result again utilizes the fact that monetary policy stimulates domestic income directly as well as indirectly through the accompanied depreciation. Fiscal policy stimulates domestic income, but depending upon how the stimulus is financed, it may tend to have an upward rather than downward influence on the exchange rate. If the fiscal policy is financed by borrowing at home or abroad, then upward pressure is exerted on the exchange rate. However, the expansion of domestic income caused by fiscal policy will increase the demand for imports leading to downward pressure on the exchange rate. Since the result on the exchange rate side is somewhat ambiguous for fiscal policy, monetary policy, where the result is unambiguous, is considered more effective

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12. Fleming, M., "Domestic Financial Policies Under Fixed and Under Floating Exchange Rates," IMF Staff Papers, 1962.

13. Mundell, Robert A., "Capital Mobility and Stabilization Policy Under Fixed and Flexible Exchange Rates," Canadian Journal of Economics, Nov. 1963.



as an overall stimulant.

The third and most important result, for the purposes of this paper, is explained by the same underlying mechanisms outlined above. If fiscal stimulus is applied to the economy, national income increases and with it the demand for imports which means the effectiveness of fiscal policy starts to leak away. However, under a flexible exchange rate, there will be pressure for the currency to depreciate as the demand for foreign exchange (supply of Canadian dollars) increases. This works against imports and in favour of exports. Unfortunately, this is not the end of the story. If fiscal stimulation is carried out without increasing the money supply, then interest rates will tend to be pushed up as credit conditions tighten, pushing the exchange rate upward as capital flows into the country in response to interest rate changes. If capital inflows turn out to be greater than the increase in net exports (Exports-Imports), then fiscal policy will be more effective under a fixed exchange than a floating exchange rate. In the extreme case where capital movements are infinitely sensitive to interest rate changes (perfect capital mobility), the induced currency appreciation will fully offset the fiscal stimulus rendering fiscal policy useless as a stabilization instrument.

Obviously the effectiveness of fiscal policy under floating exchange rate systems depends to a great extent on the degree of capital mobility. This can be investigated in various ways. Econometric models can be used to estimate the elasticity (responsiveness) of capital movements with respect to interest rate differentials. These models can be used to conduct experiments to investigate the efficacy of fiscal policy under floating rates. While these approaches are useful and results from such studies will be quoted at the end of this section, a more simplistic approach allows one to anticipate the result of more complex exercises.

Assuming perfect capital mobility (the condition necessary for fiscal policy to be completely ineffective)

amounts to the assertion that interest rates in Canada cannot differ from world rates (for all practical purposes, American interest rates). Consider Mundell's statement which prefaced his work on this topic cited earlier:

"I assume the extreme degree of capital mobility that prevails when a country cannot maintain an interest rate different from the general rate prevailing abroad."<sup>14</sup>

Hence, if a comparison of Canadian and American interest rates revealed that differences existed over time, this would serve as *prima facie* evidence that capital is not sufficiently mobile to negate fiscal policy in Canada under floating exchange rates.

Table III<sup>15</sup> contains a comparison of Canadian and American interest rates. Three rates have been chosen, the discount rate (bank rate), short term interest rates (interest on assets of less than a year to maturity), and long term interest rates (interest on assets of greater than a year to maturity). Further, these average yearly rates have been broken down into real interest rates by subtracting the inflation rate from each series for each country. It is immediately apparent that both nominal and real interest rates in both series have differed between Canada and United States between 1970-76. The last row shows that the mean (simple average) of these differences is greater than one percentage point in every case and averages over 1½% in terms of real rates. These differences appear to be significant in the context of international interest rate differentials and capital mobility. For example, the TRACE econometric model estimates that a 1% difference in the long term rate will induce a capital inflow of \$1.4 billion in the first year. Even a low estimate (Rhombert 1964) gives a flow of \$0.56 billion. From 1970-76, 1.4 billion represents from 20% to 385% of long term capital flows, indicating the potential significance

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14. Ibid., p. 475.

15. Calculated from IMF Financial Statistics. It should be noted again that this is only *prima facie* evidence and no effort is made to explain the precise reasons for the interest rate differentials.

of a 1% interest rate differential.

From this evidence one can tentatively conclude that fiscal policy will have an impact on the economy even when the exchange rate floats.

TABLE III

Canada-U.S.A. Differences in Nominal and  
Real Interest Rates - 1970-1976

<u>Year</u>	<u>Discount Rate</u>		<u>Short Term Interest Rate</u>		<u>Long Term Interest Rate</u>	
	<u>Nominal</u>	<u>Real</u>	<u>Nominal</u>	<u>Real</u>	<u>Nominal</u>	<u>Real</u>
1970	+0.50	+3.02	-0.45	-3.09	+1.33	+3.85
1971	+0.25	+3.02	-0.78	+0.72	+1.21	+2.71
1972	+0.25	-1.26	-0.51	-2.02	+1.60	+0.09
1973	-0.25	-1.64	-1.56	-2.95	+1.26	-0.13
1974	+1.00	+1.01	-0.04	+0.10	+1.91	+2.05
1975	+3.00	+1.39	+1.58	-0.03	+2.06	+0.45
1976	+3.25	+1.50	+3.88	+2.13	+2.40	+0.65
Mean Differences	1.21	1.65	1.26	1.58	1.68	1.42

The empirical evidence available from published econometric studies verifies the assertion made above that fiscal policy will not be rendered useless under a floating exchange rate. Rhomberg (1964), Helliwell (1972), Choudhry et al (1972), and Carr et al (1976) all find some effectiveness for fiscal policy under floating exchange rates.<sup>16</sup> In fact both Choudhry and Carr find that fiscal policy would actually be stronger under flexible exchange rates than fixed rates! This means that the increase in net exports (Exports-Imports) must be greater than capital inflows, the condition outlined in discussion of Flemming's third point above.

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16. Rhomberg, R. "Capital Mobility and Stabilization Policy Under fixed and Flexible Exchange Rates," JPE 1964, Helliwell, J.F. "North American interdependence under alternative exchange rate systems." Paper given to the European Meetings of the Econometric Society.

Choudhry, et al, "THE TRACE Econometric Model of the Canadian Economy" (Toronto: University of Toronto Press) 1972. Carr, et al, "The Operation of the Canadian Economy under Fixed and Flexible Exchange rates: Simulation Results from the TRACE model." CJE February 1976



It is worth quoting from the Carr article at some length:

"The conventional wisdom that fiscal policy is ineffective under a flexible exchange rate regime comes from the Mundell (1963) model where perfect capital mobility is assumed. Where there is perfect capital mobility, any expansionary fiscal policy will cause capital flows which most outweigh any induced import effects. When capital is not perfectly mobile, then the effectiveness of fiscal policy under various exchange rate regimes is an empirical matter. The TRACE model gives the result that fiscal policy is effective for short-run stabilization purposes under a flexible exchange-rate regime. In fact, it is more effective under a flexible exchange rate system than under a fixed one because the depreciation of the dollar reinforces the expansionary effect of the fiscal policy."<sup>17</sup>

The sentence which I have underlined in the above quotation is important. Once the forces at play in using fiscal policy with a floating exchange rate are understood, then it becomes an empirical question as far as fiscal policy's effectiveness is concerned. From the evidence, it would appear that in the past and at present fiscal policy in Canada is effective when used under a floating exchange rate system.

## SECTION II: Summary and Conclusion

This section of the paper has outlined issues surrounding relatively small open economies which allow their exchange rate to float, while following a monetary rule, with fiscal policy used for stabilization purposes.

It was argued that in the long run exchange rates reflect underlying economic conditions and hence floating exchange rates will not hinder a country's international competitiveness as long as proper domestic policies are pursued to control inflation, unemployment, and growth.

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17. Ibid., pp. 114-115.



It was shown that a floating exchange rate can act as an insulator from foreign economic disturbances. While it will not always perfectly negate disturbances, it will reduce the variability in national income from foreign sources as compared to a fixed exchange rate system.

Finally, the theory and evidence concerning the operation of fiscal policy in conjunction with a floating exchange rate was outlined. It was concluded that capital is sufficiently immobile allowing fiscal policy to be effective in Canada in conjunction with a floating exchange rate.



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GOVERNMENT BORROWING AND ITS  
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FEBRUARY 1978





GOVERNMENT BORROWING:  
ITS IMPLICATIONS FOR THE ECONOMY

Background Paper

Ministry of Economic Development

January 1978



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## INTRODUCTION

In the post-war era governments have actively pursued monetary and fiscal policies in their search for economic stability, based on the intellectual tradition of Keynesian economics. There is now widespread concern, however, that these policies have proven to have contributed more to instability and inflation than they have to economic harmony. In particular, excessive government has been singled out as a major determinant of instability. This paper traces the influence of government borrowing on the economy through its effect on the money supply, the exchange rate, aggregate demand and private investment to see if these concerns are justified.



## SECTION I

### Deficits and the Money Supply

Two years ago, in December 1975, a group of economists stated in an open letter to the Prime Minister that one of the prime causes of domestic inflation was government (federal, provincial and municipal) deficits and the way in which they were financed. This letter touched off a debate among the Conference Board of Canada, a private firm (Loewen, Ondaatje, Mutcheon et.al.), the federal government and a multitude of academic economists.

The first questions to be considered in this debate are which level of government is of the most concern in discussing the inflationary implications of deficits and what exactly is the appropriate definition of deficits? The deficits of all levels of government can have inflationary effects through interest rate changes, exchange rate changes, and 'crowding out'. However, only the federal government has the option of monetizing its debt (selling its bonds to the Bank of Canada for cash, which it then spends) and for this reason, warrants closer inspection. For the purposes of this section of the paper, government will mean the federal government unless it is explicitly stated otherwise.

The issue of what exactly constitutes a deficit was central to much of the early controversy over the relationship between deficits and inflation. The federal government, supported by Conference Board analysis<sup>1</sup> argued that deficit financing took place only when government operating expenditures exceeded revenues (National Accounts basis) while critics of this view, particularly R.M. Richardson<sup>2</sup>, contended that the total borrowing requirements of government for whatever reason was the important issue to focus on and implicitly referred to this as deficit financing. The importance of clarifying this point can be seen from Table I.

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1. Crozier, Robert B. (1976a) "Deficit Financing and Inflation: Facts and Fictions", (Ottawa: The Conference Board in Canada)
  2. Richardson, R.M. and Loewen, C.B. (1976a) "Has Ottawa Had a Policy Relapse: Misconception or Misdirection?" (Toronto: Lowen, Ondaatje, MaCutcheon and Co. Ltd.), July 28.

TABLE I<sup>1</sup>  
(millions of \$)

Years	National Accounts Deficit or Surplus (-)	Net Financing Requirements Including Foreign Exchange Financing
1966	-231	254
67	85	1,275
68	11	1,049
69	-1,021	-398
70	-264	1,907
71	145	2,162
72	568	1,430
73	-384	15
74	-1,079	1,826
75	3,555	4,969
76	2,884	4,683

On a National Accounts basis, 1966 - 1976, the federal government has had five surplus years with the largest deficit being \$3.6 billion. However, the net financing requirement (NFR) over the same period shows only one surplus year and consecutive deficits (75, 76) of near \$5 billion. Clearly, the definition of 'deficit' is important.

In essence, the government borrows to (1) cover operating deficits on revenue and expenditure transactions as reflected in the National Income and Expenditure Accounts, (2) to acquire funds to 'roll over' maturing debt from the past, (3) to acquire funds to be used for the purchase of debt instruments from crown corporations and other agencies, (4) to purchase foreign exchange, (5) to build up cash balances<sup>2</sup>.

The federal government and the Conference Board would argue, however, that only in case (1) is there an increase

1. Bank of Canada Review, September 1977, Table 2

2. Crozier, Robert B. (1977) "Deficit Financing and Inflation: A Review of the Evidence", Canadian Public Policy, III: 3



in government liability without a corresponding increase in assets, i.e. this is deficit financing since there is an increase in net outstanding debt. In case (2) an old liability is cancelled and a new one created; in case (3) a new liability is created and a new asset (claim on crown corporation or agency) is acquired; in case (4) the liability is offset by the foreign exchange acquisition; in case (5) the liability (debt) is balanced by a build up of cash (asset). Hence, in the 'textbook' or conventional sense of the term, deficit financing applies only to case (1), but this does not mean the government's financing requirements for cases (2) and (4) are harmless with respect to inflation. All of the five reasons for borrowing listed above can affect the monetary base and, hence the money supply. Consequently, the relevant balance to be considered in an assessment of the impact of government borrowing on the money supply and, hence, on inflation, is the net financing requirement (NFR) shown in Column (2), Table 1, not the National Accounts deficit or surplus case (1) above and Column (1), Table 1<sup>1</sup>.

Since there is general agreement among most economists that the rapid growth of the money supply after 1970 significantly contributed to Canadian inflation, the next question to be considered is whether the net financing requirements of the federal government forced the Bank of Canada into excessive monetary expansion or whether this action was taken for other reasons?

Perhaps the most appropriate place to begin in an assessment of the question posed above is with statements by the Governor of the Bank of Canada. As outlined in another paper, Monetary and Exchange Rate Policy, the Bank of Canada announced a change in philosophy regarding its conduct of monetary policy

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1. It should be noted that loans to crown corporations and agencies have become suspect with regard to the creation of an asset to balance the government's liability. This is due to the present government's tendency to 'wipe out' debt to the CNR and the St. Lawrence Seaway, for example. This debt does not disappear, it simply means that taxpayers gave away the sums involved and they (through their government) are never repaid.

in the fall of 1975. In preparation for a monetarist approach to monetary policy (controlling a monetary aggregate rather than aiming at interest rates and credit conditions) the Bank of Canada outlined the implications of its new stance in various speeches and its Annual Report (1975). Part of the latter report dealt with the interaction between government deficits and the ability of the Bank of Canada to pursue its desired monetary policy.<sup>1</sup>

In the quote which follows it is worth remembering two points: first, while the government (through the Department of Finance) has ultimate responsibility for monetary policy, it is the Bank of Canada which charts the monetary course, and only if Ottawa disagrees is there likely to be a substantial turn around in policy. Second, since the Bank is the federal government's fiscal agent it has the responsibility of giving advice regarding the amount and composition of the government's debt. Hence while the federal government's financial requirements may impinge on the Bank's desired monetary policy it does not remove the responsibility that the Bank has for this policy.

"An increase in borrowings by governments can be most readily accommodated without undue upward pressure on interest rates and without excessive monetary expansion during periods in which the growth of private spending and borrowing is slackening. Indeed, fiscal policy settings that involve increased borrowing requirements when private demands are cyclically weak can be an important element in helping to sustain economic activity.

Once private spending and credit demands begin to expand again as economic recovery proceeds, there is both less need and less room for government borrowing. If such borrowing nevertheless remains at a high level it may become increasingly difficult to accommodate credit demands in total, private as well as public, within a framework of reasonable monetary expansion without substantial upward pressure on interest rates. Depending on the level of external interest rates there may be a substantial diversion of government and other borrowing to foreign markets resulting in upward

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1. See also, Courchene, Thomas J., Monetarism and Controls: The Inflation Fighters, C.D. Howe Research Institute 1976.

pressure on the exchange rate as well, even with a very large balance of payments deficit on current account. Such a sequence of events could at some point prejudice a healthy expansion of the Canadian economy. The Bank of Canada can reasonably be expected to see to it that inappropriately high rates of interest do not arise from an unduly low rate of monetary expansion. However, the Bank should not be expected to attempt to deal with these matters by allowing the money supply to expand at an excessive rate since that would only shift the problem back to the domestic inflation of prices and costs. Problems of this kind will be much easier to avoid if governments manage to reduce the size of their borrowing requirements as the private sector of the economy recovers."<sup>1</sup>

This rather lengthy quote has two important themes: first if governments must increase their borrowings then they should do so in recessions when private demands are weak and 'back off' in recoveries. To do otherwise could cause problems with regard to interest rate levels, the exchange rate, and monetary expansions. Second, if the absolute level of government borrowing requirements is too high then this could prevent the Bank of Canada from achieving its targets for restraint in monetary growth. Since the Bank of Canada does not have the independence of central banks in countries such as West Germany and the United States the above statement is rather bold. It could be interpreted as an accusation that as far as the excessive monetary expansion over the 1971-74 period was concerned the government of Canada was to blame due to its large financing requirement. It definitely is intended as a warning that the Bank will not accept the blame for excessive monetary expansion which in the future is clearly due to an excessive borrowing requirement of the federal government.

It should be noted that it is important to specify the time period under consideration. When commenting on the origins of the inflationary conditions in the 1970's, the years 1971 to 1974 are important since inflation built up in this

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1. Bank of Canada, Annual Report, 1975, pp. 12-13.



period peaking in 1974. In addition the money supply increased most rapidly over this period. The years 1975-76 saw an extension of the high rate of inflation but the trend was downward and this must be viewed in light of policy changes like the Bank's conversion to monetarism and the Anti Inflation program. Table 2 indicates the inflation rate, and rate of growth of the money supply defined as  $M_1$  (currency in circulation and demand deposits) over the period 1966-76.

TABLE 2<sup>1</sup>

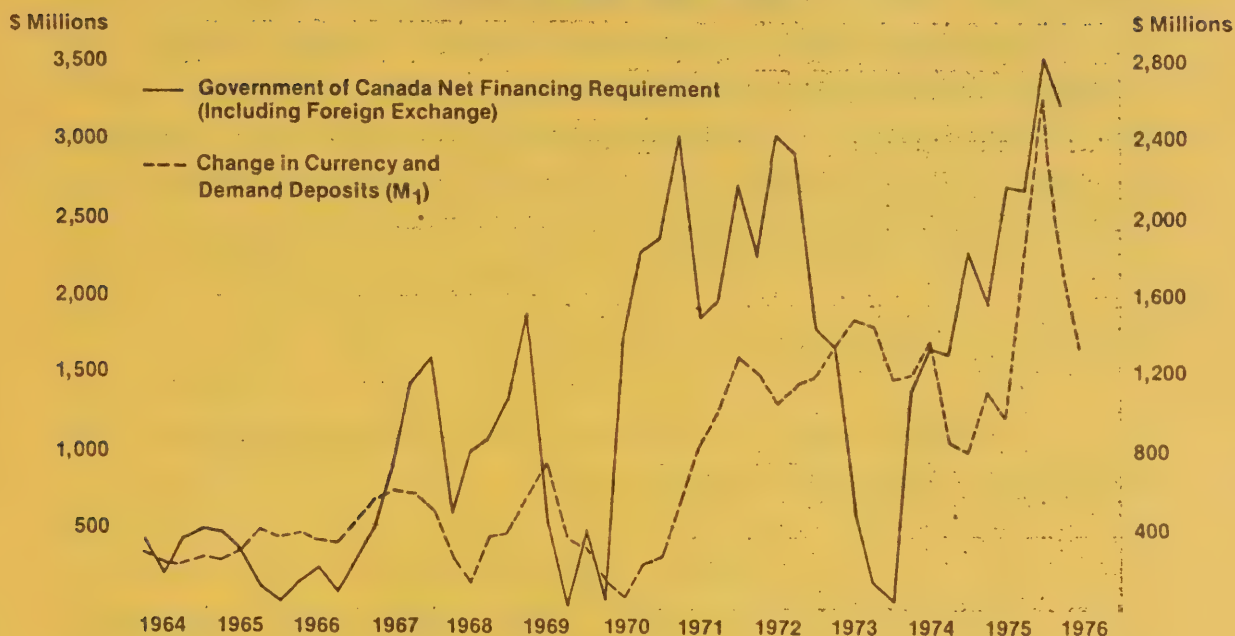
<u>Year</u>	<u>Percent Change in <math>M_1</math></u>	<u>Inflation Rate GNP Deflator</u>
1966	6.9	4.5
67	9.7	3.9
68	4.4	3.3
69	7.4	4.4
70	2.3	4.7
71	12.8	3.1
72	14.0	5.0
73	14.4	9.2
74	9.7	14.3
75	13.8	10.7
76	7.9	9.5

The first piece of statistical evidence presented relates the path of money supply growth ( $M_1$ ) and the federal government's net financing requirement. Since the argument is that the large net financing requirement (NFR) forced the Bank of Canada to expand the money supply in an extraordinarily rapid fashion and this in turn contributed to Canada's inflation, it would be expected that movements in the NFR and  $M_1$  would be closely related.

1. Bank of Canada Review, September, 1977.



CHART I  
 GOVERNMENT OF CANADA  
 FINANCIAL REQUIREMENTS AND MONEY SUPPLY <sup>1</sup>  
 (12 month moving basis, 1964 to 1976)



The chart does show that there is an apparent statistical association between the federal government's net financial requirement and the growth of the money supply. In fact, except for 1973, the two series seem remarkably well correlated. However this does not prove that the net financing requirement caused the rapid growth in the money supply. It is possible that the series reflects deliberate discretionary action on the part of the Bank of Canada to expand the money supply. Perhaps the best assessment is that the apparent statistical association between the NFR and  $M_1$  is less conspicuous in its presence than it would be in its absence, i.e. if no association were apparent then there would be little point in continuing the argument, but since there is apparent association further investigation is warranted.

1. SOURCE: Loewen, Ondaatje, McCutcheon & Company Limited, "Has Ottawa Had A Policy Relapse: Misconception or Misdirection?" Toronto 1976.

The net financing requirement of the federal government is met in the following ways: (1) a reduction in government cash balances; (2) selling Canadian dollar securities to the Bank of Canada; (3) selling securities to the chartered banks; (4) selling securities to the general public. These methods of financing the NFR are not equivalent with regard to their expansionary impact. In particular monetization of the federal NFR, number 2 above, (commonly referred to as printing money) is potentially the most inflationary method of financing. In passing it should be noted that the composition of Canadian dollar securities can have inflationary implications but this point will not be dealt with in this paper.

Table 3 shows behaviour of the various categories used to meet the federal government's NFR.

TABLE 3<sup>1</sup> (Millions \$)

Canadian Dollar Financing Requirement Met by Category							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Year	NFR	Gov't Cash Balances	Can. \$ Securities Total	Holdings CDS Bank of Can.	Holdings CDS Chartered Banks	Holdings CSB Public	Holdings Other Secur- ities Public
1966	254	-49	303	2	167	223	-89
1967	1,275	297	978	334	740	230	-326
1968	1,049	-60	1,109	135	943	40	-9
1969	-398	-675	277	170	-480	324	263
1970	1,907	-85	1,992	183	1,510	714	-415
1971	2,162	-823	2,985	572	721	2,519	-827
1972	1,430	-127	1,557	586	-192	1,195	-32
1973	15	69	-54	572	159	-384	-401
1974	1,826	-2,359	4,182	1,014	831	2,445	-108
1975	4,969	1,024	3,945	841	-351	2,664	791
1976	4,683	558	4,124	574	872	754	1,924

CDS - Canadian Dollar Securities

CSB - Canada Savings Bonds

1. Bank of Canada Review, September, 1977, Table 2.

As an example of how the table works consider the year 1971. The federal government needed to finance \$2,162 million. Through the Bank of Canada it sold \$3,812 million in securities; to the Bank of Canada (572), to the chartered banks (721), and to the general public (2,519), i.e. sum of columns (4), (5) and (6). It bought \$827 million of marketable securities back from the public (column 7) making the total raised from securities \$2,985 million (column 3). The government's cash balances increased by \$823 million (column 2) leaving \$2,162 million to meet the NFR column (1).

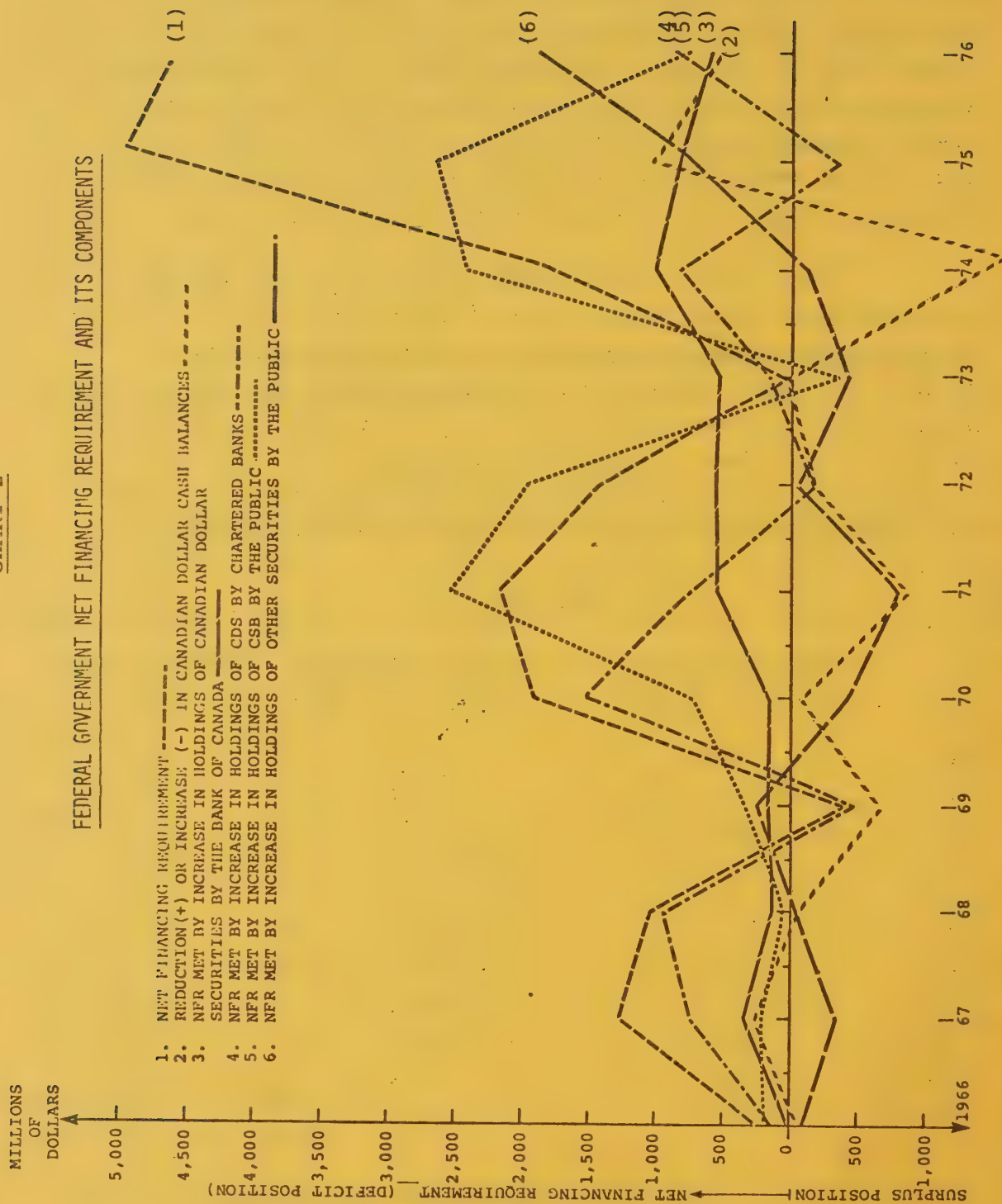
From table 4 and a graph (Chart 2) of the NFR and the components of how it was met it appears from 1971 to 1974 the government increasingly relied on selling securities to the Bank of Canada (monetizing the debt) to meet its financing requirement. It has already been noted that this is potentially the most inflationary method of financing the NFR. Table 4 follows up on this point by showing the percentage of the NFR that has been monetized over the period 1966-76 derived by

TABLE 4

<u>Year</u>	<u>Monetized debt as a Percent of NFR</u>	<u>Percent Change in the Monetary Base</u>	<u>Percent Change in <math>M_1</math></u>
1966	0.79	7.3	6.9
67	26.2	8.2	9.7
68	12.9	0.9	4.4
69	-	9.4	7.4
70	9.6	5.6	2.3
71	26.5	12.8	12.8
72	41.0	15.6	14.0
73	3,813.0	15.2	14.4
74	55.5	13.3	9.7
75	16.9	17.4	13.8
76	12.3	11.5	7.9

CHART 2

## FEDERAL GOVERNMENT NET FINANCING REQUIREMENT AND ITS COMPONENTS



Source: Bank of Canada Review, September 1977, Table 2.



dividing column (4) by column (1) from Table 3. Column (1), Table 4 shows that starting in 1971 an increasing percent of the NFR was monetized but since 1975 the percentage has dropped off. Starting in 1971 the monetary base<sup>1</sup> and the money supply increased rapidly and the rates of change remained abnormally high through 1975. Does this finally prove that the large federal government net financing requirement caused the excessive expansion in the money supply and hence inflation? Although Table 4 appears to provide convincing evidence that the large federal NFR did lead to the rapid monetary expansion due to excessive debt monetization there are other considerations which suggest that this is not the whole story.

Starting in 1971, the year that the ratio of monetized debt to NFR began its upward climb, the federal government's net financing requirements amounted to \$2,162 million, and \$572 million was monetized. Yet the government of Canada held an average of \$2,239 million in cash balances (deposits with the chartered banks) during 1971, and actually increased those balances by \$823 million in that year. Why didn't the Bank of Canada use these deposits as a means of offsetting the federal government's large borrowing requirement? The answer is that the Bank of Canada felt that such a policy would not have provided the chartered banks with the degree of liquidity it deemed desirable.

In judging the degree of liquidity in the system there is evidence that the Bank of Canada focused on the Canadian Liquid Asset ratio (CLA) as the key indicator of monetary policy<sup>2</sup>. Since both excess cash reserves and treasury bills satisfy secondary reserve requirements, the sale of treasury bills

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1. The monetary base is defined as currency in circulation plus chartered bank reserves held with the Bank of Canada. It is related to the money supply through the formula  $Ms = mB$  where  $Ms$  is the money supply,  $m$  is the money multiplier and  $B$  is the monetary base.
  2. The Canadian Liquid Asset ratio is the ratio of Canadian dollar liquid assets in the chartered banks to total Canadian dollar assets in chartered banks.

to the chartered banks satisfied the government's need for funds while at the same time the substitution of treasury bills for excess cash reserves satisfied chartered bank secondary reserve requirements without causing a monetary contraction. By manipulating the CLA through sales of marketable bonds, treasury bills, and in other ways the Bank of Canada in turn hoped to influence loan activity and hence the overall monetary situation. Whether or not this type of policy was misguided is not the issue here, but this approach to monetary policy does help explain why government cash balances were not drawn down to cover federal government financing requirements. The latter action taken alone would have been contractionary from the standpoint of pure monetary policy while the sale of treasury bills to the chartered banks was (somewhat paradoxically) viewed as at worst neutral and probably expansionary.<sup>1</sup>

It should be noted that in 1971 the Bank of Canada was still four years away from a monetary policy aimed at control of  $M_1$ . Obviously credit or liquidity conditions were an important part of its old style monetary policy and these considerations combined with monitoring the exchange rate probably explain why government deposits were not used to offset government borrowing. It would also appear that in 1971, the Bank of Canada, not the federal government's borrowing requirements, was the "culprit" as far as monetary expansion is concerned.

Although the picture is not so clear for 1972 and 1973 there is still reason to believe that the Bank's own expansionary monetary policy, rather than 'forced growth' due to the large NFR, was to blame. Again in 1972 the Bank monetized \$586 million of federal debt and again cash balances increased! In 1973 the federal borrowing requirements fell to a paltry \$15 million and yet the Bank of Canada bought \$572 million of Canadian dollar securities accounting for the absurd looking

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1. For further discussion of this issue see: Courehene, Thomas J., Money, Inflation and the Bank of Canada, C.D. Howe Research Institute, 1975, pp. 146, 174-175 and Bank of Canada, Annual Report, 1971, p. 9.

3813% figure in column (1) of Table 4. Surely it cannot be argued that this policy action was forced on the Bank of Canada by the federal government's borrowing needs?

By 1974 inflation had reached its peak of 14.3% and insofar as monetary expansion was a cause it is clear that money supply increases in 1971, 1972 and 1973 would be to blame. Although there appears to be a statistical association between the NFR and  $M_1$  in chart 1, and although the ratio of monetized debt to the NFR is high in 1971-74, Table 4, a closer examination of those years shows that the Bank itself was pursuing a policy of monetary ease and ignored government deposits as a method of meeting borrowing requirements in 1971 and 1972. In addition the Bank monetized roughly the same amount of debt in 1973 as it had in the preceeding two years even though the NFR was virtually zero.<sup>1</sup>

In 1974 the Bank of Canada purchased \$1,014 million of Canadian dollar securities in spite of the fact that cash balances increased by \$2,359 million reflecting an enormously successful Canada Savings Bond campaign. Again it would not appear that anyone or anything was forcing the Bank of Canada to rapidly expand the money supply. Finally, in 1975 and 1976 the federal government's financing requirement increased to nearly \$5 billion in each year. How did the Bank of Canada react? It reduced the ratio of monetized debt to the net financial requirement from 55.5% in 1974 to 16.9% in 1975 and 12.3% in 1976. Money supply growth was also brought under control in line with the Bank of Canada's new monetarist stance. If there was a strong link between money supply growth and the federal

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1. A quote from Thomas Courchene's 1970-1975 review of monetary policy states the case for deliberate Bank policy causing inflation even more forcefully.

"...the net result of attempting to obtain an "appropriate" exchange rate was a very large increase in the rate of monetary expansion, the legacy of which is our current rate of inflation. Of this there can be no doubt whatsoever."

Courchene, Op. cit, 1975, p. 161.



government's net financing requirement then surely this link would have been clearly illustrated in 1975-76 when the NFR was at record highs due to the recession. The fact that it was not speaks for itself.

In summary it does not appear after assessing the evidence presented above that the net financing requirements of the federal government forced the Bank of Canada into excessive monetary expansion over the period considered (1971-76). This does not mean that a large and rising net financing requirement will not cause a problem in the future. Obviously the size and rate of increase in the NFR could impose a constraint on efforts to keep monetary expansion within reasonable bounds, but in the past it does not appear to have done so.



## SECTION II

### Deficits and the Exchange Rate

As indicated in the previous section, one method of financing government borrowing requirements is to borrow abroad. Depending upon the extent of foreign borrowing the exchange rate may be forced to appreciate thereby hurting the export sector's competitive position.

This section begins with a review of the 'official position' regarding the exchange rate during the 1970's. The focus then switches to a brief analysis of the possible implications of foreign borrowing by all levels of government.

From 1962 to May 31, 1970 Canada had a fixed exchange rate of \$.92 U.S. to one Canadian dollar. The background paper on Monetary and Exchange Rate Policy described the events in 1969 leading to the "flexible exchange rate" of 1970. In brief, tough monetary restraint in 1969 had contributed to high and rising Canadian interest rates leading to capital flows from abroad, which in turn put such strong upward pressure on the exchange rate that monetary authorities allowed it to appreciate.

Unfortunately the Bank of Canada did not use the freedom a floating exchange rate implies to pursue an independent monetary policy. Instead monetary policy was to a great extent directed towards what the Bank of Canada saw as the most appropriate exchange rate. This point is clear from the Bank's own statements:

"The exchange rate is a very important price in a country that trades with the outside world on the scale that Canada does . . . . It is not possible to ignore it even when it floats." 1

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1. Bank of Canada, Annual Report, 1970, p. 9

The Bank was also clear about how the exchange rate would be influenced.

"It is therefore necessary to seek a mix of fiscal and monetary policy which encourages levels of interest rates in Canada that are consistent with the exchange rate staying within a suitable range."<sup>1</sup>

Given that one of the main objectives of monetary policy was to stabilize the float, there are two main ways of doing so. First, the Bank of Canada through the Exchange Fund can purchase or sell foreign exchange to stabilize the exchange rate. In the first two years after the float it would appear that the Exchange Fund made considerable purchases of foreign exchange keeping the dollar from appreciating more than it did. (Table 5, column 3).

TABLE 5<sup>2</sup>

Canadian Balance of International Payments  
(millions of dollars)

<u>Year</u>	(1) <u>Balance on</u> <u>Current Account</u>	(2) <u>Net Capital</u> <u>Movements</u>	(3) <u>Change in Foreign</u> <u>Exchange (U.S. \$)</u>
1966	-1,162	803	-184.850
67	-499	519	-173.625
68	-97	446	440.600
69	-917	982	223.817
70	1,106	424	769.233
71	431	346	794.025
72	-386	605	969.125
73	101	-575	-254.758
74	-1,513	1,537	8.500
75	-4,779	4,375	-799.517
76	-4,187	4,709	215.775

1. Bank of Canada, Annual Report, 1970, p. 9

2. Bank of Canada Review, September 1977, Table 68 for columns (1) and (2), and Table 67 for column (3).

Second, monetary policy can be aimed at keeping Canadian interest rates at or below world (particularly the United States) levels. This prevents excessive capital inflows and hence removes upward pressure on the exchange rate (as indicated above the pressure was toward appreciation over the immediate post float period). The rapid monetary growth which occurred in this period was documented in the first section of this paper, and in part it can be seen as a consequence of trying to keep interest rates low for exchange rate stabilization. This conclusion is stated very forcefully by Courchene in his 1970-1975 review of monetary policy.<sup>1</sup>

"... the net result of attempting to obtain an "appropriate" exchange rate was a very large increase in the rate of monetary expansion, the legacy of which is our current rate of inflation. Of this there can be no doubt whatsoever."

Courchene reiterates this point again by stating:

"... I feel that the fundamental error in post-float monetary policy was the decision taken immediately upon floating and continued through to the end of 1973 at least to stabilize the floating dollar at or near parity with the U.S. dollar. Essentially this decision converted the flexible rate to a fixed exchange rate, and not surprisingly Canada inherited the world inflation level."

In 1973 monetary growth continued to be high despite Bank of Canada statements that it would start to tighten. The exchange rate stayed near parity with the U.S. dollar mainly due to the expansionary monetary policy and the fact that the oil crisis did not affect Canada's balance of payments as much as that of the United States. Note in Table 5 that Canada actually had a current account surplus in 1973 and that foreign exchange holdings decreased.

Interpretation of the years 1974-1976 is not as straight forward as the 1970-1974 period when the 'par psychology' or 'dirty floating'<sup>2</sup> was the order of the day. This does not mean that

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1. Courchene, Op. Cit., 1975 pp. 161-162

2. The term dirty floating refers to official interference with a supposedly freely floating exchange rate.



monetary authorities never interfered with the exchange rate over the latter period but many other events occurred which to a great extent overshadowed official interference. Tables 5, 6, 7, 8 and 9 will be referred to extensively in analyzing the 1974-1976 period, and to some extent 1977.

TABLE 6<sup>1</sup>

Canadian Exchange Rate

<u>Year</u>	<u>Exchange Rate US \$ per unit Canadian</u>	<u>Year and Month</u>	<u>Exchange Rate</u>
1967	.92	1977 - January	.99
1968	.92	1977 - February	.97
1969	.92	1977 - March	.95
1970	.96	1977 - April	.95
1971	.99	1977 - May	.95
1972	1.00	1977 - June	.95
1973	1.00	1977 - July	.94
1974	1.02	1977 - August	.93
1975	.98	1977 - October	.92
1976	1.01	1977 - November	.90

Column (1), Table 5 shows that Canada ran large current account deficits after 1973. From 1973 to 1975 Canada's merchandise balance deteriorated reflecting a faster pace of price and wage increases in Canada relative to the United States and the greater severity of the recession in the United States. The signs over this period pointed towards a depreciation in the Canadian dollar yet it strengthened in the last quarter of 1975 and through 1976 closing out that year at \$1.01 US per Canadian dollar.

The reason why the exchange rate appreciated rather than depreciated over the 1975-1976 period is of course found on

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1. Bank of Canada Review, November 1977, Table 71.



the capital account side of the balance of payments. Canadian industrial and government bonds were attractive to American investors since their yield adjusted for risk was substantially higher than similar American bonds and conversely Canadian borrowers fled from nominal interest rates which were higher in Canada than the United States due to the faster pace of our recovery and a higher inflation rate. Unfortunately for the provinces and municipalities the bulk of their bonds were denominated in U.S. dollars, hence they took almost all of the exchange rate risk.

TABLE 7

Selected Components of Capital  
Movements in Long Term Forms<sup>1</sup> (Millions of \$)

<u>Years</u>	<u>Direct Investment</u>		<u>Canadian bonds - New issues</u>				<u>Total</u>
	<u>Canada</u>	<u>Abroad</u>	<u>Federal</u>	<u>Prov.</u>	<u>Mun.</u>	<u>Corporate</u>	
1966	790	-5	32	448	177	751	1,408
1967	691	-125	20	762	173	315	1,270
1968	590	-225	288	852	124	586	1,850
1969	720	-370	40	1,063	177	597	1,877
1970	905	-315	26	528	65	541	1,160
1971	925	-230	28	725	26	391	1,170
1972	620	-400	30	1,140	169	345	1,684
1973	750	-785	12	857	110	306	1,285
1974	725	-775	14	1,713	234	448	2,409
1975	670	-795	47	3,334	541	1,031	4,953
1976	-295	-555	92	4,691	826	3,394	9,003
1977 - I	110	-170	18	626	115	667	1,426
II	190	-130	28	753	64	490	1,335

Table 7 shows that new issues of Canadian bonds doubled in 1975. Table 8 shows that the provinces accounted for 67.3% of the total, corporations 20.8%, municipalities 10.9% and the

1. Bank of Canada Review, November 1977, Table 65

federal government less than 1%. In 1976 the trend continued despite the fact that another huge current account balance deficit was recorded and again on grounds of international competitiveness or purchasing-power-parity a depreciation of the Canadian dollar was indicated. Looking again at Table 7, in 1976 all categories increased their absolute amounts of foreign borrowing with the provinces' total of \$4,691 million being the largest although corporations tripled their total of 1975 to \$3,394 million. In terms of percentages the ordering remained as before although corporations increased from 20.8% to 37.7% of the total. (Table 8)

TABLE 8<sup>1</sup>

Percentage of New Canadian Bond Issues by Each Category

<u>Year</u>	<u>Federal Government</u>	<u>Provincial Government</u>	<u>Municipal</u>	<u>Corporate</u>	<u>Total</u>
1966	2.8	31.8	12.6	53.3	1,408
1967	1.5	60.0	13.6	24.8	1,270
1968	15.6	46.0	6.7	31.7	1,850
1969	2.1	56.6	9.4	31.8	1,877
1970	2.2	45.5	5.6	46.6	1,160
1971	2.4	62.0	2.2	33.4	1,170
1972	1.8	67.7	10.0	20.5	1,684
1973	.9	66.7	8.6	23.8	1,285
1974	.6	71.1	9.7	18.6	2,409
1975	.9	67.3	10.9	20.8	4,953
1976	1.0	52.1	9.2	37.7	9,003
1977 - I	1.3	43.9	8.1	46.7	1,426
- II	2.1	56.4	4.8	36.7	1,335

(Figures may not add to 100 due to rounding.)

Although Tables 7 and 8 reflect the bulk of government borrowing abroad some components of borrowing are missing. Table 9 fills in this gap and confirms that foreign borrowing as a percentage of total government borrowing increased from 17.9% in 1974, to 24.8% in 1975, to 40.8% in 1976.

1. Calculated from Table 7.

TABLE 9Government Borrowing Requirements - All Levels

<u>Year</u>	<u>C.P.P.</u>	<u>Total Direct and Guaranteed Borrowings &amp; Financed By</u>	
		<u>Domestic Markets</u>	<u>Abroad</u>
1970	20.2	74.0	5.8
1971	15.6	78.5	5.9
1972	16.8	67.1	16.1
1973	29.0	52.5	18.5
1974	13.9	68.2	17.9
1975	10.3	64.9	24.8
1976	12.2	47.0	40.8

Before concluding this section two further points should be made with regard to the mushrooming of foreign borrowing by the government sector (principally the provinces). First, the large current account deficit in 1976 comes mainly from the services balance which in part reflects the fact that the interest and dividends component reached nearly \$3 billion in 1976 and will increase even more rapidly in future given the increase in new debt floated abroad in 1976. Second, direct investment shown in Table 7 continued the slowdown in net terms that started in 1973, but in 1976 was actually negative in Canada. The point here is that without the proliferation of foreign borrowing the downward pressure on the exchange rate dictated by the current account would have been even stronger since direct investment, a normally solid source of capital movements into Canada, was negative.

In conclusion the evidence indicates that the exchange rate was held at a higher level than dictated by Canada's competitive position internationally by a large increase in foreign borrowing in 1975 and 1976. Insofar as governments are to blame the provinces are the principal foreign borrowers

with municipalities second and the federal government a distant third. However it can be argued that, indirectly, the rush to borrow abroad by the provinces and municipalities was a consequence of past monetary policy. The rapid expansion of the money supply in the 1970's contributed to inflation which in turn pushed up nominal interest rates. The tightening up in monetary growth since 1975 has pushed up real interest rates and, at least partly as a result of these two policies, the interest rate differential, between the United States and Canada in particular, made foreign borrowing attractive.

Between January 1977 and November 1977 the dollar has depreciated to what many economists feel is a realistic level of \$.90 US per Canadian dollar. Whether or not the extent of foreign borrowing will again force the exchange rate upward remains to be seen. However foreign borrowing is a potential problem, and a case could be made for co-ordination of foreign borrowing with regard to timing and magnitude.



### SECTION III

#### Keynesian Demand Management Policies

Keynesian demand management theories have been the intellectual underpinning of government deficits and fiscal policies since the Second World War. According to those theories, governments have a legitimate basis for maintaining their levels of expenditure when the economy weakens and their revenues decline. Financing expenditures through borrowing would sustain the level of aggregate demand in the economy above what it would be if the government reduced its expenditures in line with revenues. In addition, governments may attempt to replace the deficient item of demand that has caused the downturn in the economy by tax or expenditure changes. Corresponding actions to create surpluses are recommended to counteract excessive economic expansions. Criticism of the theory and application of fiscal policy has been extensive in recent years. In spite of the recognized improvement in the post-war economy compared to prior experience, little of that is attributed to fiscal policy. The criticisms fall into a number of categories: those that suggest that fiscal policy does not work; those that consider the practical implementation of fiscal policy too difficult to guarantee success; those that see the effect of fiscal policy operating differently in an inflationary economy to one with a basis of stable prices; and those that do not believe that fiscal policies can be implemented with accuracy in an environment of democratic politics<sup>1</sup>. Not all the objections can be thoroughly outlined and discussed here but, because the empirical conclusions to be reached later in this section are suggestive rather than conclusive, some coverage of the debate is appropriate.

Fiscal policies can have no net effect if the funds used to finance government deficits merely displace other forms of expenditure. Pressure on interest rates might, for example, crowd out private investment or consumption expenditures. The

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1. This issue is discussed in Section VI.

strength behind the Keynesian case, however, is that the growth of output stimulated by deficit policies generates incomes and new savings thereby providing funds for other uses. The actual effect is an empirical matter around which there is considerable debate but still most operational models of the Canadian economy regard fiscal policy as an important lever over aggregate demand. Of course, if fiscal policy is financed by monetary expansion then no problem about generating funds is experienced and the net effect is almost certainly larger than "pure" fiscal policy financed by public borrowing.

The operational implications of fiscal policy, indeed of all stabilization policies, have become more difficult in recent years because of the breakdown in agreement by economists on the relationship between aggregate demand, output and prices. Little agreement can be reached about whether an increase in aggregate demand will generate an increase in output or cause an acceleration of inflation. Looked at another way, few economists are willing to suggest a "full employment" unemployment rate, i.e. one which is compatible with price stability, and which should be the target of government policy. Many are prepared to say what is not a full employment rate, few are prepared to say what is. A comparison of the years 1966 and 1973 serves as an example of the unforeseen structural changes that have occurred in the economy. In both of these years actual GNP equalled potential GNP using the measures shown in Table 13. Yet in 1973 the unemployment rate was 1½% higher than in 1966. This relatively new uncertainty, coupled with the traditional problems about implementing policies which take time to have their effect in a world that is difficult to forecast, make the practical problems of fiscal policy acute. The probability of fine-tuning the economy has suffered a major setback.

The effects of fiscal policies in an inflationary environment have not been as straight-forward as suggested in

Keynesian theories. In periods of excess demand, an increase in taxation has been primarily seen as a decrease in real income rather than a contributor to reducing economy-wide inflationary forces. The immediate effect has been more apparent than the indirect effect. To the extent that the immediate effect has put pressure on wage bargains, it could be regarded as inflationary and the net effect could be labelled contractionary but not deflationary.

This sketch of some of the important criticisms of fiscal policy suggests that a cursory examination of its practice in Canada could not illuminate all of the issues. It is hoped, however, that the analysis to follow will provide enough evidence, when viewed against the backdrop of uncertainty already emphasized, to justify the conclusions.

To assess the importance of fiscal policies we should ideally be able to reconstruct the past with alternative government policies. It would be particularly interesting to be able to divorce the effect of pure fiscal policy from that of monetary expansion, since they have so often been correlated (an exercise justified by the conclusions of Section I). Even if this were done<sup>1</sup>, it would not ensure that an act of deliberate policy was responsible for the particular fiscal results seen in any period. Therefore, it would not help answer the questions of technical competence raised above. To do that a more careful look at stated objectives and results would be required. Neither of these complicated exercises has been attempted here.

The limited aim of this section is to review the timing and magnitude of fiscal policies undertaken by governments over the last twenty years; to make some judgemental associations between these policies and the course of inflation and growth over the same period; and to draw some conclusions about the

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1. One method would be to use an econometric model. However the assumptions of such models are part of the subject of analysis so they could hardly be used for conclusive proof.



appropriate ways of conducting fiscal policy. Fiscal policy is assumed to have a strong direct effect on aggregate demand with few indirect effects<sup>1</sup> throughout the remainder of this analysis.

The Conference Board in Canada has recently conducted a review of government budgetary deficits in full recognition of the problems outlined above, and in similar expectation of significant, but not definitive conclusions. They concluded that "Canada as a nation has been running comfortable surpluses in the government sector position (on a National Income Accounts basis) for all of the past decade, except for the year 1975", and that "on the basis of these figures, it is difficult to see how the claim can be made that government deficit financing has been one of the major causes of the inflation that has plagued Canada in recent years"<sup>2</sup> (see Table 10).

In Section I above, the criticisms of the Conference Board approach emphasizing the effect of federal deficits on the money supply were fully explored. For the purpose of this discussion, use of the National Income Accounts definitions are appropriate because we are concentrating on the direct demand generating effects of government deficits. Some doubt remains, however, whether Crozier's analysis can be fully accepted even within this context. Should analysis concentrate on the federal government or the consolidated government sector? Should crown corporations be included as part of the government sector? Finally, should CPP/QPP funds be regarded as part of government revenues?

One answer would be that fiscal policy has clearly been the prerogative of the federal government over most of the period which we are considering and it is only their behaviour which is relevant. Since the federal government has some direction over crown corporations through non-budgetary

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1. This is consistent with the results of the crowding-out analysis conducted in Section IV, although that section concentrated only on private investment.

2. Crozier (1976a), op. cit., no page numbers.



TABLE 10

## GOVERNMENT SURPLUSES AND DEFICITS, 1956-1976, NATIONAL ACCOUNTS BASIS

	Deficits - \$ Millions		
	Federal Government	Consolidated Government	Adjusted <sup>1</sup> Consolidated Governments
1956	598	272	272
1957	250	(19)	(19)
1958	(767)	(1,078)	(1,078)
1959	(339)	(601)	(601)
1960	(229)	(670)	(670)
1961	(410)	(835)	(835)
1962	(507)	(706)	(706)
1963	(286)	(624)	(624)
1964	345	99	99
1965	544	207	207
1966	231	425	127
1967	(84)	148	(482)
1968	(11)	502	(478)
1969	1,021	1,915	471
1970	266	806	(170)
1971	(145)	130	(715)
1972	(566)	81	(663)
1973	387	1,252	(163)
1974	1,083	2,694	322
1975	(3,551)	(3,768)	(4,336)
1976	(2,879)	(3,364)	(4,169)

1. CPP/QPP funds are used only to offset Provincial deficits and only each Province's entitlement of CPP/QPP funds can be used to offset its own deficit (except in 1975/76 for which individual provincial detail is not available).

loans, budgetary and fiscal policy may wish to encompass their actions. The approach adopted here, however, is that those crown corporations which operate much as a business enterprise are not generally controlled by budgetary policy and should not be, because their decisions should be based on market conditions. Hence, they are excluded from the government sector here as they are in the national accounts. One approach, therefore, concentrates on the performance of the federal government on a national accounts basis. It is not the only one, however, because there is a large body of opinion that argues that the provinces should also practice stabilization policy (see the Background Paper "The Role of the Provinces in Stabilization") or that the federal government can hardly be blamed for inappropriate action if other governments negate their initiatives. What is clear is that some agreement is required between levels of government about each others role and there should be a sharing of information about their planned behaviour in any year. Only in this way can policy have a chance of being successful. Even if all discretionary action is left to the federal government there should be an awareness of the policy climate it is working within (this has become especially important in light of some provinces' flirtation with fiscal policy). Therefore, the federal government and the government sector as a whole will be investigated to see whether deficit policies have been a cause for concern. Once again crown corporations will not be included.

Having consolidated the government sector, the next question is how to treat borrowing from the CPP/QPP fund. In the national accounts presentation these flows are treated as another component of government revenue when the sector is consolidated. In practise, however, these funds are used by many provinces to finance expenditures by crown corporations, i.e. the fund is used as a pool of investment funds for these corporations rather than a means of financing government expenditures. If these funds were not available then the crown corporations would either curtail expenditure or seek investment funds elsewhere, but are unlikely to have taxation revenue at their disposal unless the government is covering the deficits of

these corporations. Since government business enterprises are being excluded, CPP/QPP funds used by them should not be included. In consolidation, therefore, CPP/QPP funds are assumed to be used to cover any provincial government deficit but any surplus of CPP/QPP funds above and beyond the provincial government's own requirements is assumed to be loaned to provincial government business enterprises and is not included in consolidating the government sector. This constitutes a fundamentally different interpretation from that employed in the Conference Board paper.

Before presenting the details of this review, it would be useful to see what actually happened in the economy over the period of analysis. In which years has aggregate demand been high? This is a necessary preliminary question to judging governments' role in providing stimulation. Table 11 brings together some measures of capacity utilization in order to help explain the situation. Without elaborating on the methodology of each index it should be noted that quite specific and drastic simplifying assumptions have to be used in each. Nevertheless the indices tell a remarkably similar story as can be seen in Table 12 which converts all the indices to the same base over the period for which they are available.

Demand was very high for all of the eleven years 1964-74, having been weak for the preceeding five years. 1967, 1970 and 1974 can be labelled as "recession" years, during which the rate of change of real GNP fell. By most standards, this success in keeping close to potential output has been impressive, but equally suggests a considerable danger of prompting inflation through excess demand. Over this 11 year period, inflation accelerated from below 2% into double digits. This does not necessarily mean the two experiences are correlated, but it serves to point out the fine balance that was being attempted. Real output grew by an annualized average rate of 5.4% over the 1964-74 period with new jobs growing at 3.4% per year.



TABLE 11

## ALTERNATIVE MEASURES OF CAPACITY UTILIZATION (%)

Year	GNP Actual ÷ Potential	Industrial Composite <sup>2</sup>	Manufacturing (a) <sup>2</sup>	(b) <sup>3</sup>
1956	100.7			
1957	98.4			
1958	96.2			
1959	95.3			
1960	93.7			
1961	92.0	88.6	86.6	76.6
1962	93.9	89.4	88.0	81.1
1963	94.3	89.3	88.2	83.7
1964	96.1	92.6	91.2	88.1
1965	97.9	94.4	93.6	90.9
1966	100.0	95.1	94.9	91.6
1967	98.1	93.2	92.2	87.9
1968	98.5	94.4	93.4	88.1
1969	98.4	95.5	95.5	90.2
1970	95.7	92.5	90.6	85.0
1971	97.0	91.5	90.0	85.6
1972	97.7	92.7	91.8	88.2
1973	99.7	95.6	94.8	92.0
1974	98.1	93.4	93.2	90.8
1975	94.1	84.9	84.8	82.9
1976	93.6	84.8	85.1	84.1

## Footnotes

1. Potential GNP is assumed to have grown by 4.7% annually up to 1966 and by 5.4% annually thereafter. These assumptions are taken from "Performance and Potential: Perspectives on the Economy" by Robert B. Crozier, The Canadian Business Review, Spring 1977 (Conference Board in Canada). They are said to correspond to a 4% unemployment rate 1956-72 and a 5% unemployment rate thereafter.
2. Quarterly estimates published by the Department of Industry Trade and Commerce. Annual figure by simple averaging. (Not legitimate but accurate enough for the purpose of this table.)
3. Quarterly estimates from Statistics Canada 31-003. Annual figure by simple averaging.



TABLE 12

ALTERNATIVE MEASURES OF CAPACITY UTILIZATION<sup>1</sup>(%)

ADJUSTED 1966 = 100

Year	GNP Actual ÷ Potential	Industrial Composite	Manufacturing (a) (b)	
1961	92.0	93.2	91.3	83.6
1962	93.9	94.0	92.7	88.5
1963	94.3	93.9	92.9	91.4
1964	96.1	97.4	96.1	96.2
1965	97.9	99.3	98.6	99.2
1966	100.0	100.0	100.0	100.0
1967	98.1	98.0	97.2	96.0
1968	98.5	99.3	98.4	96.2
1969	98.4	100.4	100.6	98.5
1970	95.7	97.3	95.5	92.8
1971	97.0	96.2	94.8	93.4
1972	97.7	97.5	96.7	96.3
1973	99.7	100.5	99.9	100.4
1974	98.1	98.2	98.2	99.1
1975	94.1	89.3	89.4	90.5
1976	93.6	89.2	89.7	91.8

1. See footnotes to Table 11

Considering the role of the federal government, Table 13 shows that over the period 1956-76 the federal government account was in deficit primarily in years of clear weaknesses in aggregate demand. Over the 1964 to 1974 period surplus years outnumbered deficit years. Table 13 shows the same numbers standardized by GNP and indicates that in the years 1964 to 1974 the cumulative value of surpluses exceeded the cumulated deficits. It seems, therefore, that the federal government has allowed the automatic stabilizer of government deficits and surpluses to operate and that conclusion is borne out by Graph 1. The simple fact that the government allowed surpluses in some years does not mean that fiscal policy was appropriate, because larger surpluses may have been called for, but it does silence the criticism that limits itself to the question of deficits alone.

Graph 1 does indicate a substantially higher deficit since 1975 than has been recently observed. Three developments can explain this. Firstly, the economy has been experiencing very low levels of capacity utilization which would suggest deficit levels about the same as those experienced in the late fifties. Secondly, the federal government has introduced a number of stimulative tax cuts. Thirdly, indexation of the personal income tax has deprived the federal government of a considerable volume of revenue growth which they have come to expect in recent years. Apart from the last change nothing suggests that current deficits are somehow out of proportion with previous experience. The indexing issue poses some questions about restoring a fiscal surplus as the economy expands.

Graph 1 indicates how a somewhat different conclusion could be drawn about the size of deficits considering the budgetary deficit position of the federal government rather than the national accounts deficit. All of the differences between these two measures cannot be fully explained here but one important component is the funds available from public service superannuation schemes which are not regarded as budgetary revenue yet are a captive source of income for the government.

TABLE 13

Actual and High Employment Government Surplus and Deficits

(Proportion of GNP 1956-76)

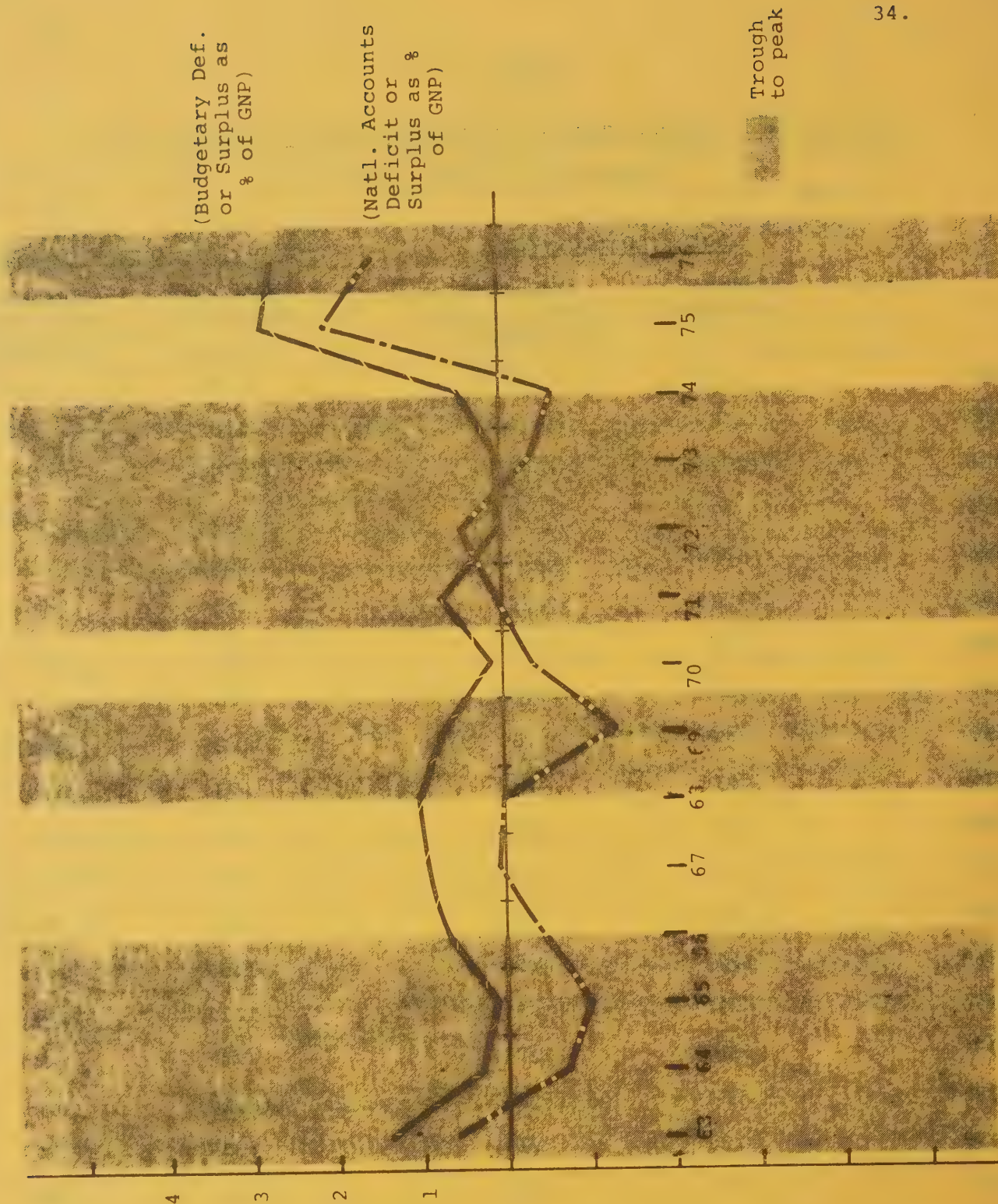
	<u>Actual Deficit/GNP</u>		<u>High Employment Deficit/GNP</u>	
	<u>Federal Government</u>	<u>Adjusted<sup>1</sup> Consolidated Government</u>	<u>Federal Government</u>	<u>Adjusted<sup>1</sup> Consolidated Government</u>
1956	1.87	.85	1.74	.64
1957	.75	(.06)	1.02	.36
1958	(2.21)	(3.10)	(1.59)	(2.09)
1959	(.92)	(1.63)	(.10)	(.29)
1960	(.60)	(1.75)	.54	.13
1961	(1.03)	(2.11)	.45	.39
1962	(1.18)	(1.64)	(.12)	.25
1963	(.62)	(1.36)	.34	.39
1964	.69	.20	1.36	1.41
1965	.98	.37	1.34	1.02
1966	.37	.21	.37	.21
1967	(.13)	(.73)	.19	(.08)
1968	(.02)	(.66)	.24	(.14)
1969	1.28	.59	1.57	1.19
1970	.31	(.20)	1.12	1.48
1971	(.15)	(.76)	.41	.40
1972	(.54)	(.63)	(.10)	.26
1973	.31	(.13)	.37	(.02)
1974	.74	.22	1.15	.99
1975	(2.15)	(2.62)	(.94)	(.17)
1976	(1.52)	(2.19)	(.22)	.45

<sup>1</sup> See Footnote to Table XX for explanation of Adjusted.

<sup>2</sup> Calculated using the ratio of GNP to potential GNP shown in Table 13 and assuming an elasticity of government revenue to GNP of unity and an expenditure elasticity of zero.



GRAPH 1:  
Budgetary Surplus or Deficit; National Accounts  
Deficit or Surplus; Federal Net Financing  
Requirement; each as a Percent of GNP



Trough  
to peak



From the point of view of fiscal policy these funds should be treated in the same way as taxation and hence the national accounts definition is appropriate.

In spite of this good general picture the role of deficits in 1967-68 and 1972 seem suspicious. To take a more careful look at the behaviour of fiscal policy over the period, an attempt has been made to calculate an index which takes the effect of recessions on government revenues out of the picture and concentrates on active fiscal policy. Table 16 contains the index, the high employment budget surplus, and indicates how it was constructed. By looking at the high employment surplus, and changes in it, the strength of fiscal action can be deduced<sup>1</sup>. From this table, the pattern of fiscal policy over the 1964 to 1974 period is clearer. Fiscal policy can be characterized as an exercise in "stop-go"<sup>2</sup>. The federal government has responded alternately to concerns with unemployment and then with inflation. They have interpreted the secular drift in unemployment rates as cyclical deterioration, and expanded demand. When inflation has become too rapid they have reversed policies. The period 1972-73 was a particularly bad period of over-expansion although the influence of policy on aggregate demand was not limited to fiscal policy but included a rapidly expanding money supply as well.

What conclusions can be drawn from the federal experience? Firstly in the conduct of fiscal policy it would appear that sometimes policies have been over-expansionary (1972-73), other times not expansionary enough (1960-61). Turnarounds in policy have either been too abrupt (1969-70), abrupt but just right (1975) or not abrupt enough (1973). Secondly, the problem of fiscal policy has not been just a problem with deficits but with designing an appropriate policy for the situation. Indeed, much of the problem has come from interpreting the situation correctly rather than a misunderstanding

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1. This does not imply that the effects were deliberate.

2. As can monetary policy over the same period.

of how to use policies. However two lessons can be learned about the way fiscal policy should be applied in the current economic situation:

- (a) Moderation should be the watchword. It is important to avoid returning to a stop-go cycle. Hence fiscal policy should be applied with caution while the major policy emphasis is on reducing the rate of inflation and monetary restraint. Small, more frequent adjustments to tax changes would be preferable to large injections of fiscal stimulus.
- (b) The federal government should set the current budget in a medium term perspective. It should outline the tax changes that will have to be made as the economy returns to its potential in order to avoid excessive demand. These changes should be outlined early enough in order that they can be publicly discussed and the necessity for tax increases (to balance current tax reductions) appreciated in advance.

A longer-term proposal would require the federal government to set its actions in the context of medium term targets for the economy and for its budgetary position. Deviations from the medium term position should be explained by discretionary actions and automatic adjustments associated with the current situation, giving an indication of when and how discretionary actions are to be rescinded.<sup>1</sup>

Turning now to the consolidated government sector, Table 16 shows that deficits have been consistently larger but that the pattern of deficits and surpluses is not so very different from the federal pattern. However, the strength of expansion and contraction was greater in some important years (c.f. 1967, 68, 70 and 73). Hence provincial and local action aggravated the stop-go situation. This result was to be expected

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1. This suggestion was made in the OECD report "Towards Full Employment and Price Stability" (1977) prepared by a group of independent experts under the chairmanship of Paul McCracken.

since the provincial and municipal levels of government have primarily followed an accommodating budgetary policy. Revenue decreases have generated expenditure reductions and vice versa; the opposite of Keynesian stabilization policy. This does not necessarily mean that the provinces should undertake active stabilization policies. Rather it suggests that they recognize the importance of their fiscal actions and co-ordinate with the federal government the role each is to play in exercising fiscal stimulus.



## SECTION IV

### Crowding-Out of Private Investment

One of the most persistent criticisms against government deficits has been that borrowing by the public sector displaces borrowing by the private sector and hence investment in the private sector. That public sector borrowing will have this effect is open to some dispute because:

- (a) A reduction in the government's deficit could reduce incomes and hence savings and therefore not provide any net new funds for investment. Crowding-out is only possible if investment would otherwise have been undertaken.
- (b) Private savings also finance private consumption as well as private investment. Hence investment may not be displaced.

However, it is a tautology that a decrease in public sector direct spending on goods and services could release resources for private investment. In this way, public consumption can be said to be crowding-out private investment regardless of the way in which public consumption is financed. Government deficits are to blame only in so far as they have been a convenient vehicle for increased expenditures, an issue which is not very susceptible to empirical verification. Inevitably, the share of government output in the economy increases in years of deficit because a recession usually causes both.

Although it is not clear which measure of deficit is most appropriate for the discussion of crowding-out, the federal government's large financing requirements described in Section I have not caused any increase in direct expenditures at the federal level as a share of GNP. Federal deficits (national income accounts basis) in the late sixties and early seventies could be regarded as sources of financing for increased spending by the provincial governments but they could equally be viewed as necessary for an expansion of transfer payments to individuals.



At the provincial level, where direct expenditures have increased rapidly, there has been no necessity to use public borrowing since the mid-sixties until the present period because the CPP/QPP scheme has provided an ample source of indirect revenue. Hence crowding-out is unlikely to have taken place.<sup>1</sup>

In an open economy where both financial and real resources can be borrowed from abroad at relatively fixed prices, it is doubtful that government borrowing need ever crowd out private investment. Of course, the pace of current consumption (be it private or public) is eventually constrained by the economy's ability to produce so that borrowing to pay for government consumption may represent an attempt to maintain a pace of consumption above that which can be tolerated by the growth of the economy. This consumption must be paid for eventually; this payment may take the form of reduced investment but could also reduce private consumption. The real problem, in cases where a problem exists, is with the size of government expenditures. Deficits are a problem only in so far as they have been an avenue for increasing expenditures.

Is there any evidence that private investment has been crowded out? Table 14 shows that total gross fixed capital formation as a share of GNE fell by one percent from the late nineteen fifties to the late nineteen sixties and then by another one half of a percentage point in the early seventies. The former decline was concentrated in the non-government sector but more recently government capital expenditure has been growing more slowly than GNE. A larger share of investment in the late fifties was possible because imports considerably exceeded exports. The same pattern has recurred recently, in 1975-76, although consumption also benefited from a larger trade deficit at that time.

It is very difficult to draw firm conclusions from comparisons of five year averages when annual observations show considerable variation and each five year period does not represent

1. Of course, the CPP,QPP funds can be seen as potential pools of investment funds which have been crowded-out by public use but that is a separate issue.

Table 14

Structural Changes in Demand 1955-1976

<u>Period</u>	(% of GNE, derived from <u>CONSTANT</u> dollar estimates)						<u>Exports Minus Imports</u>
	<u>Personal Expenditures on Goods and Services</u>	<u>Government Current Expenditure</u>	<u>Gross Fixed Capital Formation</u>				
			<u>Total</u>	<u>Government</u>	<u>Business<sup>1</sup> Housing</u>		
1955-59	60.7	18.5	23.8	3.5	14.4	6.0	-3.7
1960-64	60.9	18.2	21.5	4.3	12.5	4.8	-1.7
1965-69	58.9	18.2	22.8	4.2	14.0	4.5	-1.6
1970-74	59.3	19.0	22.2	3.7	13.4	5.1	-1.2
1975-76	63.0	19.7	23.2	3.5	14.5	5.2	-5.1

Source: Statistics Canada, National Accounts.

1. Excludes Residential Construction

a neat cycle. However, more detailed analysis of individual years does not contradict superficial analysis. From 1968 to 1972 business investment was below its peak performance and it is possible that consumption squeezed out investment over this period, especially in 1968-69, but the response of investment to excess capacity seems a more plausible explanation thereafter. However, in 1969 the federal government ran a surplus (even on a net cash requirements basis) so financial crowding-out could not have been a problem. Therefore we may be concerned about 1968. This would put the concept of crowding-out on an individual year basis rather than label it a general problem of government deficits at all times.

Table 14 is somewhat suspicious because it only shows a modest growth of government spending, quite contrary to the general perception. Table 15 tells a more dramatic story because it is derived from current dollar estimates of GNE not constant dollar estimates. Which table is most relevant? Table 14 is derived from estimates of real expenditures, i.e. real consumption, and Table 15 is derived from estimates of the value of consumption. The former is an indication of the quantity of investment and consumption of goods consumed whereas the latter is a better reflection of the resources required to produce those outputs. If, over time, productivity increases are such that fewer resources are devoted to the production of investment goods but not the services which contribute an important part of government spending, then the secular change in Table 15 would not be surprising. On balance, Table 14 is preferred as an indication of real crowding-out while Table 15 suggests the long-term effect of differential productivity changes. In spite of the difference in derivation, the two tables do not contradict each other with respect to the question of crowding-out. Government current expenditures have grown substantially at the expense of personal consumption not private investment.

Table 16 shows that the composition of private investment has changed over the last twenty years with rapid expansion in investment in the trade, financial and commercial sectors.

Table 15

## Structural Changes in Demand 1955-1976

(% of GNE, derived from CURRENT dollar estimates)

Period	Personal Expenditures on Goods and Services	Government Current Expenditure	Gross Fixed Capital Formation			Exports Minus Imports	
			Business <sup>1</sup> Housing				
			Total	Government			
1955-59	63.8	13.8	24.3	3.8	14.7	5.8	-3.4
1960-64	64.4	15.0	21.4	4.2	12.6	4.5	-1.7
1965-69	60.1	19.3	23.1	4.3	14.3	4.5	-1.3
1970-74	58.2	19.1	22.1	3.7	13.1	5.3	-0.2
1975-76	58.4	20.3	23.7	3.6	14.2	6.0	-2.8

Source: Statistics Canada, National Accounts.

1. Excludes Residential Construction



Table 16

Private and Public Investment in Canada<sup>1</sup> 1956 - 1975

Year	Primary and Construction Industries	Manufacturing	Utilities	Trade Finance and Commercial	Total (excluding utilities)	Total
						(\$M)
1956	1,781	1,972	2,402	749	8,152	10,554
1965	2,744	3,314	3,290	1,489	13,502	16,792
1974	6,612	7,260	8,243	4,839	33,829	42,072
1975	7,883	7,718	10,066	5,541	37,680	47,746
						(% of Total)
1956	16.9	18.7	22.8	7.1	77.2	100
1965	16.3	19.7	19.6	8.9	80.4	100
1974	15.7	17.3	19.6	11.5	80.4	100
1975	16.5	16.2	21.1	11.6	78.9	100

SOURCE: Statistics Canada 61-206

<sup>1</sup> Includes construction, machinery and equipment and repair expenditures.

Manufacturing investment has grown less quickly than total investment in the last ten years. It is doubtful that government deficit policies have had much to do with this reallocation of investment funds in the private sector (at least through the crowding-out route).

The growing balance of payments deficit over the last two to three years, apart from reflecting the different cycle in Canada and a deterioration in competitiveness, may also be attributed to an attempt to keep the rate of growth of consumption above the rate of growth of the economy's capacity to produce. This consumption will have to be paid for in the future and therefore we will want to be careful about not crowding-out investment in the near future. We will have to be sure that debts are repaid through foregone consumption. This is again an issue of the size of government expenditure not deficits. The fact that these funds are borrowed from abroad is important only in so far as they have to be repaid from foreign earnings so that foreign deficits cannot support domestic consumption past the economy's ability to increase foreign earnings in the future. This is the vicious circle of foreign borrowing that sees deficits pushing up domestic inflation, thereby reducing international competitiveness and reducing the economy's ability to repay past debts. Certainly this possibility exists<sup>1</sup> but the recommendations of a floating exchange rate and a more cautionary fiscal policy suggested in the previous two sections should prevent the Canadian economy from entering the vicious circle described above.

In conclusion, it would seem that crowding-out has not been a problem up to now. To the extent that the choice has been delayed by increased foreign borrowing, consumers and governments will have to face a slower growth in real consumption in the future.

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1. Although it puts an extremely simplistic and negative interpretation on the possibilities for substitution between domestic and foreign consumption and investment.

SECTION VIntergenerational Transfers

Some critics of the increase in the absolute size of borrowing requirements of all levels of government have suggested that a disproportionate burden is being placed on future generations since the interest payments on this debt will eventually become part of their tax burdens. In part this argument depends upon the use of the borrowed funds. If the funds are used for capital construction or for the development of a service, item or program which will be available not only at present but in the future as well then a distribution of the tax burden over present and future generations is logical.

If the amounts involved reflect a "borrowing spree" by governments, then it would be expected that the interest on public debt as a percentage of output, Gross National Product, would have shown a dramatic increase particularly during the 1970's. The table below shows total interest paid on the public debt as a percentage of Gross National Product.

TABLE 17

Total Interest on the Public Debt  
as a Percentage of Gross National Product

<u>Year</u>	<u>Federal Government</u>	<u>Provincial-Municipal and Other</u>	<u>Total</u>
1961	2.0	1.0	3.0
62	2.0	1.1	3.1
63	2.0	1.1	3.1
64	2.0	1.1	3.1
65	1.9	1.1	3.0
66	1.9	1.1	3.0
67	1.9	1.2	3.1
68	1.9	1.4	3.3
69	2.0	1.5	3.5
70	2.2	1.6	3.8
71	2.1	1.7	3.8
72	2.1	1.8	3.9
73	2.0	1.9	3.9
74	2.0	1.7	3.7
75	2.2	1.8	4.0
76	2.4	1.8	4.2

From the table it can be seen that the federal government maintained a remarkably stable percentage of interest payments to GNP, remaining at about 2% from 1961 to 1974. Other levels of government increased their percentage steadily from 1967 to 1973 from 1.1% to 1.9%, contributing to an increase in the total percentage from 3% to 3.9% over the period.

In the 1975-76 period there was a reversal of sorts with the federal government's percentage increasing by .4% while other levels of government remained steady. As expected the overall percentage has increased in the 1970's, from a peak of 3.5% in the 1960's to a peak of 4.2% in 1976. However, this does not appear to be a dramatic increase and except for 1975-76, there have been no quick or sudden changes. Unless the upward trend in these percentages accelerate there would not appear to be cause for alarm over the issue of intergenerational transfers.



## SECTION VI

### The Political Economy of Deficits

One final view point has to be examined before the conclusions listed in the previous sections can be totally justified. It concerns the political economy of deficit policies, the actual behaviour of governments free to use deficit financing as opposed to the theoretical and analytical merits keynesianism.

It has been suggested that in democratic politics:

- (a) deficits will always be larger and surpluses smaller than they should be thus creating an inflationary bias in fiscal policy and a bias towards a larger public sector;
- (b) governments will always oversell the virtues of activist policies.

These conclusions are based on an interpretation of democratic politics which emphasize that:

- (a) The immediate consequences of government policies are of more importance to the individual voter than their longer term implications. Not only are the immediate consequences more obvious and definitive but the voter cannot be sure how much of the longer-term, indirect effects of policy can be attributed to particular government initiatives. Hence governments will always risk unpopularity raising taxes or reducing spending in the short run, the period when elections may be most important.
- (b) Democratic politicians, once they accept one idea that activist policies can improve the economic situation, will find the political demands for an immediate and precise improvement difficult to resist. Hence the virtues of Keynesian activism and ad hoc interventionism

in the economy in search of quick results will be hard to resist. Moderation and compromise are not the routes to early re-election.

The only conclusion to be drawn from these observations, if accurate, would be to institute the discipline of non-interventionist, non-activist control on governments. How accurate these observations are, cannot be explored here. However, the essence of the current National Economic Strategy exercise is, in fact, a test of these political observations; to show that democratic politics are not so confined.

The test of these observations will be whether governments can accept a new picture of our economic reality:

- (a) that there are limits to the benefits from activist policies. The benefits are substantial but are not to be oversold;
- (b) that government are not all powerful to control the operation of the economy;
- (c) that government actions have been wrong in the past but that these mistakes can be corrected;
- (d) that guidelines are needed for future policy direction both to set the limits of government action and to explain those limits to the public;
- (e) that a new round of sectoral specific ad-hocry is not an answer to the economy's problems.

If the exercise is not successful then a more pessimistic conclusion of the democratic political process may become justified. Stronger conclusions about policy making and restraints on government action may then have to be considered.

## SECTION VII

### Conclusions

In Section I it was concluded that the net financing requirements of the federal government did not force the Bank of Canada into excessive monetary expansion over the period 1971-76. However the size and rate of increase in the net financing requirement could impose a constraint on efforts to keep monetary expansion within reasonable bounds in the future, and caution must be exercised to ensure that this does not occur.

In Section II a review of evidence concerning the exchange rate revealed that from 1970 to 1974 the exchange rate was held at or near parity with the U.S. dollar through official actions in the foreign exchange market and through monetary policy aimed at fixing the exchange rate at that level. In the 1975-76 period the exchange rate was held at a level that was higher than warranted by Canada's competitive position internationally by large increases in foreign borrowing. The largest government component of foreign borrowing is provincial direct and guaranteed borrowing. Next are the municipalities and the federal government component is smallest. At present the exchange rate appears to be at an economically realistic level. However, if excessive foreign borrowing by governments in Canada causes an exchange rate problem in the future, a case could be made for co-ordination of foreign borrowing with regard to timing and magnitude among governments.

In Section III the central conclusion is that although there have been errors in fiscal policy making, the solution to them would not be to totally reject the use of budgetary policy to stabilize the economy. If institutional mechanisms could be introduced which would encourage greater understanding about the role these policies can play and more precise examination of their timing and effects then fiscal policy can be a useful policy instrument. When the economy is relatively close to full employment the emphasis in the area of fiscal policy should be to let the



automatic stabilizing role of government policies do most of the work. This means letting tax revenues fall and unemployment insurance payments increase, thus creating a budgetary deficit, but not introducing new programs of government spending nor reducing tax rates. When the economy shows strength, the government should allow receipts to exceed revenues and create a budgetary surplus. The emphasis, when close to capacity utilization, should be on caution rather than on activist policies.

When the economy moves further away from its potential, the rationale for more active stimulatory policies becomes more compelling. Here policies should only be used which can be easily reversed. Instead of generating new programs, should be placed on speeding up already budgeted expenditures or using changes to general rates of taxation.

It is very important that governments be prepared to tolerate surpluses as well as deficits. A good part of the failure of fiscal policy has been in failing to let revenues remain unspent in years of excess demand. There is one institutional change that could improve the certainty of more appropriate surplus policies: government should publish medium-term economic and budgetary targets which would indicate the expenditure levels and tax rates appropriate to meeting those targets. Deviations from the medium-term position should be divided into discretionary and automatic adjustments and an indication should be given of when discretionary actions will be rescinded.

Although the federal government should conduct fiscal stabilization policies as described, the case for provincial stabilization can not be generalized. This will depend on the nature of the individual province (see Background Paper on Provincial stabilization). What is important, however, is that both levels of government keep each other informed of their medium-term approach to fiscal policy so that policies can be better co-ordinated. Some relaxation of pre-budget secrecy between governments could improve the decision making process.



In Section IV a cursory examination of investment in Canada over the period 1956-76 did not reveal any clear, evidence of crowding-out of private sector investment. However to the extent that this phenomenon has been delayed by increased foreign borrowing, consumers and governments will face slower growth in real consumption in the future.

In Section V it was concluded that the borrowing requirements of all levels of government do not appear to be placing a disproportionate burden on future generations. That is, there is not a problem over the issue of intergenerational transfers at the present time.

Section VI outlines some of the arguments involved in the political economy of deficits but does not attempt to draw conclusions on this issue.

In summary it has been shown that common concerns about deficits are really more fundamentally concerned about the relationship between deficits and fiscal policy, and the effect that government borrowing will have on the money supply, the level of investment and the exchange rate. The guidelines for action in these policy areas described in this paper and other background papers should be adopted. To constrain active monetary policy adherence to a money supply rule and a floating exchange rate has been advocated. To prevent crowding-out, procedures for making the size of the government sector more responsive to public demands have been proposed. To ensure that the exchange rate reflects the underlying competitive position of the economy governments are advised to refrain from attempting to artificially support or depress the rate. With these policies in place and the reforms to fiscal policy described above, there should be far less concern about government borrowing requirements destabilizing the economy in the future. However, if some priority has to be established it should be that deficits be reduced rather than the other policies compromised.



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FEDERAL-PROVINCIAL CONFERENCE  
OF  
FIRST MINISTERS

Notes for Remarks by The Prime Minister of Canada  
Introducing the Discussion of General Economic Policies  
February 13, 1978

Ottawa  
February 13-15, 1978





NOTES FOR REMARKS  
BY  
THE PRIME MINISTER OF CANADA  
INTRODUCING  
THE DISCUSSION OF GENERAL ECONOMIC POLICIES  
AT  
THE FIRST MINISTERS' CONFERENCE  
ON THE ECONOMY  
FEBRUARY 13, 1978  
OTTAWA

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I spoke this morning about the economic opportunities in our country and about the uncertainty that exists despite those opportunities. Notwithstanding our current difficulties, I tried to underline that, nonetheless, the economic successes of Canada stand out in the world. This is true over all but the most recent period. It is true by virtually any measure. It is equally the case that our prospects for recovery are good and the seeds of that recovery are already deeply rooted.

I do not believe that uncertainty has its base in an objective reading of our economic record or a realistic assessment of our economic prospects. It springs, I believe, both from our current problems of inflation and unemployment and from a perception that we are moving into a future that is likely to be very different from our past. Rapid change and the growing complexity of our economic system make Canadians feel they are losing control of their own destinies. The events of the past four years have made us keenly aware of the growing interdependence of the world economy. The increasing interdependence of nations has been an important source of growth in the world. But it has also made us more vulnerable. The politics of the Middle East, frost in Florida, the failure of a coffee crop in Brazil: events such as these, over which Canadians have no control, seriously affect our daily lives.

We in Canada cannot alone change the world economy --- we can though, I believe, do a better job of helping Canadians understand and adjust to its impact upon us.

Our citizens, like those in other countries, also have a growing mistrust of institutions --- of corporations, of labour unions, and, especially, of governments. Many people think their institutions are not serving them well enough. They feel they are too big, too inflexible, too remote from their daily lives. They believe their institutions are responsible for higher prices, the lack of jobs, the unfulfilled aspirations of younger Canadians and the unmet needs of senior citizens. Governments, and we as Government leaders, must respond to these concerns.

Let's face it --- as leaders of eleven Governments we also seem, at times, to be competing with one another rather than cooperating in the interests of those we are elected to serve. I believe that we must and can change and that we will make progress in that regard this week.

Faced with uncertainty and frustrations, our citizens appeal to us in two ways. Those with special needs and problems call on Governments to spend more money and to intervene further in the management of the economy. Other Canadians, a growing number, are calling for restraint, for withdrawal, for an intensive reexamination of the roles and responsibilities of Governments.

We must find the way to respond fairly to both calls. And most important we must do so together --- honestly and openly. This is essential.

I happen to feel that although we represent ten provinces, six or seven regions, and the entire political spectrum, we can find common cause and work to common purposes. For the aspirations of Canadians will be realized only if we can create a renewed sense of common purpose. This process of renewal must be based firmly on new partnerships between Governments and between Canadians and their Governments.

Allow me to set out for a few moments what I believe are necessary conditions in this new partnership. Amongst many, I believe four are of primary importance:

FIRST, it is Governments' task (in consultation with Canadians) to establish the economic goals the country can achieve --- that is part of our work over the next three days.

SECOND, we must understand that private citizens and private markets have the major task in ensuring economic performance in Canada. Our job in Government is to provide an economic framework --- we cannot and should not manage all the details of economic activity.

THIRD, we must recognize the country is diverse in its regions and that the economies of each region are continuously changing. It is because Canada is diverse and dynamic, that the relations between Governments at all levels must be flexible and adaptable. That we must also demonstrate.



FOURTH, good economic performance is not an end in itself. But without it, the kind of country we all want, humane, tolerant and compassionate, is not possible. Therefore, we must provide the effective leadership which good economic performance demands. At the same time, as political leaders, we must aim to serve Canadians in a variety of ways, not just to help manage the balance sheet.

These four conditions are, in my view, critical --- realistic economic goals, a healthy private sector, adaptable Government institutions, and a sensible balance between economic and social interests.

If we look honestly at the record, we see that our Governments have moved rapidly and massively to provide Canadians with services and support. Although our citizens' incomes increased a great deal, Government revenues and expenditures increased even more.

From 1965 to 1975, Government expenditures, at all levels, grew from 26% to 36% of our gross national product.

There are many who argue that our Governments have grown too fast and too large. They say that in our attempts to provide government services for people, we sacrificed economic efficiency and competitiveness. I have some sympathy with this point of view. I recognize, as we all must, that if we are not efficient and competitive, if we do not create wealth in the country, we cannot sustain our efforts to help those who need it and build a more humane and equitable society.



Our aim must be to constrain the growth of our Governments. We must reduce our share of gross national product. But, even more important, we must reduce the intrusion of bureaucracy in the daily lives of Canadians.

We have got the message. In 1976, for the first time in a long while, Governments' share of gross national product fell. Federal expenditures, excluding transfers to your Governments, grew by less than 9%, while gross national product grew by almost 15%. Provincial expenditures followed a similar pattern. In 1977 our growth rate will be very close to the growth in the gross national product and hopefully slightly below. Expenditure restraint will continue.

We must be mindful, however, that Governments have not grown because of the carelessness and opportunism of politicians. The programs we have introduced have been in response to the needs and desires of the Canadian community. Some would argue that we have responded too well. But, as a result of them, the benefits of our wealth have been widely shared.

We Canadians, and your Governments and mine, have chosen to use an increasing share of our wealth to provide better education, better health care, better roads, a better environment and increased pensions and support for the elderly and the disadvantaged among us. We may have moved too quickly at times, but I could not agree that we have moved in the wrong direction nor could I be a member of a partnership that would destroy these fundamental support systems that have so enhanced the lives of Canadians in every region of the country.

I cannot, therefore, agree with those who argue that we should retreat from the objectives we have been seeking to serve. We must resist the rhetoric that argues that to reproduce the growth of the 1960's we must return to the world of the 1950's.

The path we need to follow now is even more challenging. Our task is to reexamine the ways in which our policies and our programs are implemented. If some are found to have outlived their purpose, they should be eliminated. Those which needlessly intrude in Canadians' lives can be changed --- and should be. We must approach this task positively and with an open mind. Not with a view of retreating from the human and progressive goals we have sought to serve, but rather with a view to ensuring that our efforts to pursue them are supportive of economic incentives, individual enterprise and personal dignity.

Diversity of approach and initiative must remain our strength. But we share in Canada a broad range of public policies at all levels of Government. These policies establish the framework within which commerce and economic activity are pursued in our country. They are not exclusively federal or exclusively provincial policies, but policies that provide the broad rules of the economic game. They include trade and industrial policies, economic regulation of all kinds, labour relations and energy policy --- all of which we will discuss at this conference.

In streamlining and adapting our programs, we have a great deal of room for creative and imaginative diversity. The genius of our federal union lies in its capacity to have arrangements appropriate to each of ten provincial Governments and their citizens. We must not allow this adaptive capacity to be compromised by our short-term economic difficulties.

In fact, Canadians will know your Governments and ours have already begun to find new ways to make programs work better. Allow me to give two examples.

The national home insulation program was deliberately designed to provide incentives to Canadians to conserve energy. As you know, we considered regulation but rejected it as excessively bureaucratic, interventionist and inconsistent with our social structures. Similarly, the employment tax credit is an experiment in providing incentive to the private sector to create jobs as opposed to further Federal Government job creation. If it is successful, we will expand it.

There are other areas within our joint responsibilities where we could take a similar approach. Minimum wage policy is often alleged to cause more harm than good. Some argue that it decreases our competitive position and increases unemployment, particularly among the young. It is clear minimum wages serve social goals. But, in my view, it is worthwhile to examine whether direct income supplementation for low-wage workers would not accomplish the same social objectives as the minimum wage with less distortion in the economy.



One could equally ask whether income supplementation is not a more effective social and economic measure than directly controlling prices, whether by subsidy as we do with oil, or by direct regulation as we do with rental accommodation.

Many of you, in your own jurisdiction, have been equally creative. Premier Davis your Government in Ontario has introduced a refundable tax credit system to provide relief from property and sales tax for low and middle income taxpayers. Perhaps this is a model that should be pursued on a broader scale. Indeed, should we be questioning the concept of universality in some of our social programs? Is there good reason, for example, why those Canadians with high incomes should receive an oil subsidy or other subsidies? If we can devise programs that can provide support to those who truly need support, without bureaucratic intervention, then we could serve our social objectives while reducing government expenditures, market interference and bureaucratic intervention.

Our federal relations with provincial governments are also evolving to serve Canadians better. Over the past two years, we have agreed on new funding arrangements for our shared programs in health and education. These arrangements recognize your growing economic fiscal strength. They reflect a determined search for new approaches. They will provide both tax points and assured federal support, while leaving your governments free to set your own priorities in the light of your objectives and your needs.



We have joined with your governments in all regions to conclude development agreements. These ensure that both levels of government see to it that monies spent on such developments as wharves, roads, new plants and new mines are spent wisely.

We have also developed continuing arrangements to formally exchange information and opinions on the state of the economy. Our ministers of finance meet annually, prior to formulating their budgets, to consider what actions by governments would be most appropriate.

We have made a new beginning but we have just begun --- in our own areas and together --- we must now work quickly to accelerate the pace.



FEDERAL-PROVINCIAL CONFERENCE  
OF  
FIRST MINISTERS

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Notes for Opening Remarks by the Prime Minister of Canada

February 13, 1978

Ottawa  
February 13-15, 1978





NOTES FOR OPENING REMARKS  
BY  
THE PRIME MINISTER OF CANADA  
TO  
THE CONFERENCE OF FIRST MINISTERS  
ON THE ECONOMY  
FEBRUARY 13, 1978  
OTTAWA

---

I believe the work we do here these next three days can be of great importance to our country. We are here today because eleven of us who lead Canada's governments believe a great deal can be done to speed our economic recovery and ensure greater prosperity for Canadians. In preparation for this conference, I was privileged to meet with each of you in the capital of your province. Those valuable talks were followed by an intensive and highly focused series of federal-provincial meetings that marked, in my view, the beginning of a new era in collaboration between the provinces and Ottawa. Our ministers considered a broad range of specific issues wherein our responsibilities to the people of Canada are shared. In these meetings which took up such questions as energy, agriculture, manufacturing and mining, provincial ministers participated as co-chairmen. Our Finance ministers also met. They reviewed the economy in the short and the medium term; and the federal government has since made public its economic projections and targets for the medium term, the first time this has ever been done.

Today, we meet to continue that process of collaboration; to discuss, among ourselves and openly with Canadians, economic opportunities for our country and the economic policies and programs of our governments.

There is uncertainty in Canada. The world has suffered a major recession. Fortunately, we were not one of its victims but we are not free of some of its effects. Our growth has not lived up to our potential. Too many Canadians who want to establish a productive place for themselves in society are having difficulty. High rates of inflation continue to disturb our economic system.

Many Canadians understandably are anxious about the future. This very anxiety saps our creative energies. None of us at this table can be content when such conditions exist. We have been through difficult times before but have found the strength and perseverance to succeed. We will succeed again; there is no doubt in my mind about that. What is different today is the developing sense that we may have reached a point unlike any in our history. There is truth in this, but no grounds for pessimism.

We can I know assure enough growth to guarantee employment for those who wish to work - and do so without setting off another round of inflationary pressure that will defeat our purposes.

We can continue to grow I am persuaded without exhausting our supplies of energy, without pillaging our natural environment and without limiting the rights of minorities and the freedom of the individual. Our institutions, our governments and our people are, I believe, dynamic and flexible enough to meet these fundamental goals in a world of accelerating change.

These, then, are the issues - and the challenges - that define our agenda for this conference.

They must be faced with a realistic sense of who we are and where we are. Let's be clear about one thing. Canada is not a sick country in a healthy world. In fact, Canada is one of the few countries in the world where output and employment have continued to expand in the face of world recession. This is a record in which we can all take pride. Our economic performance has been consistently better than all industrialized countries, with the exception of Japan. From 1965-75, the average income of Canadians, after taxes and after inflation, grew by about 58%, over 4.5% per year. That is, Canadians on average, were able to buy over one and one-half times as many goods and services in 1975 as in 1965. An average of 250,000 jobs a year were created in Canada. It is not that this was a bad record - it was a very good record - it simply was not good enough.

In 1973, when the world was plunged into recession, growth faltered in every other industrialized country. In Canada, however, the economy continued to grow.

By 1976, our output had increased from its 1973 level by almost 10% - a better growth performance than Japan or Germany and three times as great as the United States. Employment in Canada also grew faster through this period than in any other major country. So did incomes. While the rest of the world stalled, the average real income of Canadians grew by 15% from 1973 to 1976. That is after taxes and adjusted for inflation. In the United States, the average American's income over this same period grew by less than 2%. That is the picture. It is cold comfort, you say, to be told how well we did compared to others when we might have done better. I do not disagree. But let us not obscure the facts. Let us not lose ourselves in a fog of negativism.



The world is on a recovery course. As we proceed on that course, evidence mounts that in a measured way, Canada can reattain its potential with continuing reductions in both unemployment and inflation.

This morning as we discuss the medium term outlook, may I suggest that the following realities be kept in mind. We did not do as well in 1976 and 1977 as before nor as well as all of us would have liked. Nonetheless:

- our economy generated 250,000 jobs in 1977; only the U.S. produced jobs at a higher rate.
- our competitive position is improving. Wage increases are now about 7-8%. They were 20% two years ago. The devaluation of the dollar has also helped. Our exports grew rapidly last year. Indeed, our merchandise trade surplus is estimated to have tripled in 1977 over 1976, to over \$3 billion.
- 1977 profits improved almost 9% over 1976. Our industries are moving into a position where they can resume productive investments.
- In the third quarter of 1977 the economy grew at an annual rate of 5.2%. That is close to potential or what it should be. The Conference Board, authoritative and independent in economic matters, reports that consumer confidence at the end of 1977 was higher than at any time since mid-1974.



Canada is not chronically ill. We all reject the very idea. In fact, Canada is on the path to full recovery. But it will not reach that point without much more work. Our task is two-fold. First, to ensure that the recovery occurs; second, to ensure that it is sustained. What we are doing today is writing an insurance policy that will serve us well tomorrow. This can only be done by concerting our efforts, our policies, and our programmes.

All of us here have common responsibilities to the people of Canada. There is virtually no economic area in which one of us can act without affecting us all. We must recognize this fundamental fact and in its light, work together.

We have set ourselves the broadest possible agenda for this conference. Our deliberations, I hope, will be thorough, fairminded and frank. I hope that we will arrive at a realistic view of the potential of this remarkable country and what we must do to achieve it. I hope, moreover, that in these next three days, we can lay the foundation for a renewed sense of purpose and partnership between Canadians and their governments - for a refreshed and revitalized Canada.



FEDERAL-PROVINCIAL CONFERENCE  
OF  
FIRST MINISTERS

Notes for Remarks on  
the Public Sector  
by

the Honourable W.R. Bennett  
Premier of British Columbia

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Ottawa  
February 13-15, 1978





## SPEAKING NOTES: THE PUBLIC SECTOR

### Introduction

Mr. Chairman, fellow Premiers, this morning I tabled and discussed comprehensive proposals for an economic strategy for Canada. This afternoon, I shall address myself specifically to the important issues of growth and cost of government.

### Problems

During the last decade and a half Canada has witnessed a dramatic increase in the role of government and spending by government. During this period total government spending expanded at a real average annual rate of 7.2 per cent. Total output of our economy grew at only 5.3 per cent, or 30 per cent less than the rate of growth of government. Government spending that represented approximately 30 per cent of our gross national product in 1961 now is more than 40 per cent.

Growth of government has been a major contributor to current problems of inflation and unemployment and one which we have tended to ignore most obviously in the current Anti-Inflation Program. Government taxes, levies and costs have seriously eroded the purchasing power and discretionary income of all Canadians. The enterprises which we have and the investors whom we must encourage are faced with a growing tax burden, a multiplicity of conflicting regulations and

uncertainties in our fiscal and monetary policies. They are undoubtedly hesitant to make their long-term commitments to doing business in Canada.

While much of the growth in government results from demands from the public, it is now evident that these demands have, in many instances, been government inspired. It is equally obvious that there has been inadequate appreciation of the ultimate cost -- to people and to the economy -- of the programs and of our ability to absorb the costs on a sustained basis.

Excessive growth in spending has meant that governments have put large demands on funds that would otherwise be available to the private sector. Additionally governments have set compensation patterns that the private sector could not afford.

### Solutions

First and foremost I urge all governments to adopt a policy of spending restraint. Specifically, we propose that the growth in government spending should be kept below the growth in the economy. It is our opinion that the difference should be at least one percentage point.

In my remarks this morning I urged the establishment of a Council of First Ministers to deal with economic policy.

What I have just proposed is an example of a specific issue of national concern to which the Council would address itself.

During the necessary period of adjustment other action must be taken to ensure that when strict restraints no longer are necessary, government will provide services in the most cost-effective and accountable manner. In particular, it is proposed to maintain full indexing of personal income taxes. Indexing reduces the tendency for government revenues to outpace growth in the economy and therefore forces governments to increase taxes if they plan to significantly expand expenditures. In this way the public has a better opportunity to judge whether the expansion of government spending really is wanted.

Another method of improving the accountability and delivery of government services is to adopt the principle that provincial taxation responsibility should be aligned with provincial program responsibility. In other words, federal government spending power should not dictate the pattern of provincial programs. We advocate returning more tax room to the provinces. We recognize, nevertheless, that transfers may be necessary as an equalizing factor for some provinces.

Too often our income support programs fail to reach the people whose need is greatest. British Columbia's position

paper tabled this morning calls for reform of social assistance programs, by providing more incentives to return to work and by providing income support to low-income workers.

Public sector compensation comprises a significant part of overall government spending but of greater concern is the fact that government wage settlements which are not constrained by the market forces of the private sector do have an influence on subsequent private sector wage settlements.

Traditionally, public sector compensation has either kept pace with or followed private sector compensation levels. However, some government settlements of recent years have reversed this relationship and have put inflationary wage pressures on the private sector.

Governments should not establish pay levels that the private sector cannot afford. A better information exchange is required to ensure public sector settlements do not lead the private sector. In British Columbia we have established the Council of Public Sector Employers to provide such a program. While it may be difficult to determine what should be the appropriate private sector compensation patterns, comparisons should be made among key economic sectors within the various Canadian regions.



The matching process should be flexible enough to recognize the obligation of governments to pay fair compensation. Private-public sector comparisons should not be limited to wages alone. They should be based on total compensation concepts (including non-wage government benefits, indexed pension plans, job security, etc.). The development of compensation data must be realistic and objective to gain acceptance by labour and third-party arbitrators. Labour must have input on the methodology of data gathering and compilation. This approach will be of benefit to the collective bargaining process. Public sector compensation should be determined within the context of government spending constraints and budgetary pressure should be placed on public sector employers to hold them directly accountable for the settlements which they negotiate.

We advocate the formation of an interprovincial pay comparison body as a practical means of establishing public sector pay comparison between provinces.

### Conclusion

The foregoing proposals, which are more fully detailed in our paper, Towards An Economic Strategy For Canada, respond to the problems of the growth of government. I make no apologies for reiterating my remarks of this morning when I urged you to seriously consider a new mechanism for co-operative policy-making in Canada. A Council of First Ministers should sit at least twice yearly to ensure the implementation of policies and

discuss economic matters of importance as they arise. This Council and the groups reporting to it would play a central role in the implementation of initiatives governing the public sector. These initiatives should be of two kinds:

- (1) proposals that governments can all agree with and implement immediately and;
- (2) proposals requiring analysis and further consultation among both federal and provincial governments before implementation.

Proposals of the first kind would include British Columbia's suggestions for overall expenditure restraint, agreement to the proposed principles for public sector compensation, agreement to maintain full indexation of personal income taxes, and agreement to the principle of reducing, as much as possible, spending competition among governments. Into the second group of proposals would fall the suggestions for increased efficiency and accountability in government spending including: further return of tax room to the provinces and a review of the income support system along the lines suggested by British Columbia.

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FIRST MINISTERS

Report to First Ministers' Conference

on the Canadian Manufacturing Industry

by

The Honourable Jack H. Horner

Minister of Industry, Trade and Commerce

Ottawa  
February 13-15, 1978





REPORT TO FIRST MINISTERS' CONFERENCE  
ON THE CANADIAN MANUFACTURING INDUSTRY

BY

THE HONOURABLE JACK H. HORNER  
MINISTER OF INDUSTRY, TRADE AND COMMERCE

My report to you today is based on a hard look which Ministers of Trade and Industry have taken at the performance of the manufacturing sector and at the policies which affect it. My colleagues and I concluded that economic development should have the highest priority in policy making at all levels.

Our findings were reported in a joint communiqué which we agreed to issue to the press following a day-long review of the issues. We were assisted by a number of background papers on overall Canadian manufacturing performance, by economic region and by industry. You have these studies.

Our examination has confirmed that the manufacturing sector has been a major contributor to the development of the Canadian economy over the post-war period. Canadian manufacturing output grew faster than that of most industrialized countries during this period. Productivity in the sector advanced more rapidly than in the United States. Employment in manufacturing rose from 1.3 million persons in 1951 to more than 1.8 million in 1976. Although manufacturing remains concentrated in Central Canada, all regions of the country shared in the growth of production and employment.

The contribution of manufacturing to Canada's economic well-being extends far beyond the limits of the sector. In addition to the one job in five which manufacturing provides directly, the sector supports at least half again as many jobs in related service industries and in industries which supply its raw materials and power. Output per worker in manufacturing rose half again as fast as in the economy as a whole over the post-war period. This increase in productivity contributed more than one third of the total rise in Canadian per capita incomes over the post-war period. Partly and fully manufactured goods make up more than two-thirds of Canadian exports and help to maintain a sound balance of international payments.

The manufacturing sector, then, has made a strong contribution over the period. But it has encountered difficulties in relatively recent times. My colleagues and I are concerned that a number of recent developments threaten the ability of the sector to make its full potential contribution in the years ahead.

You all are familiar with these problems. Wage and salary gains have exceeded productivity improvement. We have lost some of the advantage we held in energy, raw material and other costs of production. Other countries have also experienced severe energy cost increases. Canada has retained a somewhat better position because of joint federal-provincial policies and agreements to phase in energy price increases which have kept Canadian energy costs below world levels since 1973. After-tax profits in real terms in Canada

have fallen below their levels of the 1950's and 1960's. All these factors weaken the competitiveness of our manufacturing industries.

Moreover, the competition we face from other countries is getting tougher. The Japanese and European economies have completed their rebuilding. The United States has improved its competitive position. The developing countries are cutting into markets for industrial products. Canada's role as a provider of finished goods is under heavy pressure. The times ahead will be tough sledding. There are no simplistic solutions to the economic problems facing Canada.

My colleagues and I believe in the basic strength and ability of the private industrial sector to meet these challenges. We recognize that all levels of government have a clear responsibility to ensure that their policies are supportive of industry's competitive efforts.

Governments establish the framework for industry with the horizontal policies you have been discussing over the past two days. My provincial colleagues and I believe that some of these policies should be modified if the manufacturing sector is to make its full contribution to overall economic development. We agreed that the following issues are particularly important: excessive growth of the public sector, the application of environmental protection rules, the impact of unemployment insurance compensation, the amount of government regulation and paperwork requirements,



transportation policies, taxation, and inadequate research and development. I think I speak for my colleagues when I tell you how pleased we were to see many of these items on your Agenda.

I should stress that we do not dispute the valuable objectives of these programs. Indeed, our purpose in promoting economic development is to put us in a better position to afford a more just society. But a balance must be struck, and that balance is tougher when economic conditions are tough. It is hardest in those regions and those communities which are facing highest unemployment.

My colleagues and I are very aware of the considerable variations that exist from region to region in the opportunities and problems facing the manufacturing sector. We concurred that policy decisions must give full recognition to the natural advantages of each region. We agreed that the different industrial structures of the various regions do not lend themselves to uniform policy remedies. This means that we may need to shape national policies to meet the different needs of different regions.

We recognized that small businesses make up the fibre of enterprise across the country. We agree that if federal and provincial governments cooperate to assist the development of a strong small business sector, they certainly will be furthering national and regional industrial objectives.



Ministers were of the view that in a healthy economy, with supportive federal and provincial policies, much of the adjustment to changing competitive conditions will be achieved by the private sector without more specific government intervention. Where this is not the case, additional assistance to business firms already is provided by the federal government and some provinces. Ministers recognized, however, that the business community remains concerned over adjustments that may flow from changing international competition, changing technology or changing market demands as well as those that may arise from the Multinational Trade Negotiations. With regard to the MTN, I indicated to my provincial colleagues that the federal government is prepared to put in place special measures under our Enterprise Development Program to deal with MTN-related adjustment situations.

Industry Ministers also recognize the need for more specific policies designed to exploit opportunities or overcome constraints faced by individual industries within the manufacturing sector. A series of twenty-two sector profiles, covering about 70% of manufacturing activity, has been prepared by the federal government to serve as a starting point for the development of policy initiatives.

My colleagues and I agreed that there should be a continuing consultative process among governments and with business and labour. So far as inter-governmental discussion

is concerned, the process is well launched with this conference and the sectoral meetings which came before. I understand you will be discussing these matters further in your consideration of the next item on the Agenda.

As to governments' consultations with business and labour, I put before my colleagues a federal proposal (which they agreed I might put before First Ministers). The proposal is that we should appoint a number of manufacturing and tourist industry task forces of about ten or twelve members each, drawn from business and labour. Officials of the federal and provincial governments would work with these task forces and provide the necessary secretariats. Based on the profiles developed for their industry and their own knowledge and experience, the task forces would be asked to recommend policy action. They would be asked to complete their work within the relatively short time-frame of June 30, 1978.

In order to ensure that the action proposals for specific industries are consistent with each other and with overall economic objectives, they would be referred to a national task force, also composed of businessmen and labour, but without government participation. This national task force would forward final recommendations to Ministers of Trade and Industry and of Tourism, by October 1, 1978.

This consultative process would give business and labour a substantial voice in the important federal and

provincial policy decisions that will affect their sectors.

To sum up, a strong and dynamic manufacturing sector is of crucial importance to the achievement of our mutual economic and social objectives. Governments working together with business and labour can significantly support the quality of the contribution which the industrial sector can make.



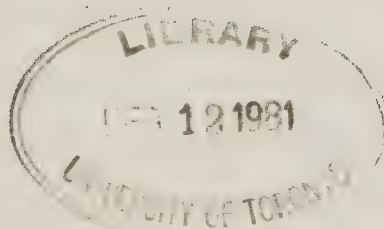


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FEDERAL-PROVINCIAL CONFERENCE  
OF  
FIRST MINISTERS

Communiqué of the Conference

November 1, 1978



Ottawa  
October 30-November 1, 1978



- the need for all governments to adopt a flexible approach and to demonstrate a willingness to compromise; and,
- the need for all governments to devote time and effort to the task of renewal.

3. PROCESS OF RENEWAL

The First Ministers agreed:

- a) to establish a Constitutional Committee composed of designated federal and provincial Ministers, including ministers of intergovernmental affairs, Ministers of Justice and Attorneys General, as appropriate. The Committee will be assisted by officials and will be joined, as appropriate, by other Ministers as particular powers come under study;
- b) to make arrangements, within each of their governments, to ensure that rapid consideration will be given by their respective Cabinets to points of contention that might arise in the Constitutional Committee, to accelerate the decision-making process;
- c) to ask the Constitutional Committee to provide them with interim reports on difficulties that might arise during its deliberations, which could prevent specific proposals being framed prior to their next Conference on the Constitution;
- d) to direct that the Committee report to First Ministers before their next Conference on the Constitution;
- e) to meet in conference, to consider and act upon the specific proposals of the Constitutional Committee, and other matters relating to the renewal of the Constitution, the 5th and 6th of February, 1979.





## COMMUNIQUE

### THE FIRST MINISTERS CONFERENCE ON THE CONSTITUTION October 30 - November 1, 1978

#### 1. INTRODUCTION

The First Ministers of the Federation, namely the Prime Minister of Canada and the Premiers of the ten Provinces, assisted by their Ministers, met in Ottawa to discuss an agenda for constitutional renewal which included a Charter of Rights and Freedoms for Canadians; the Distribution of Powers between Parliament and the Provincial Legislatures; the Institutions of the Canadian Federation; and the process of constitutional revision, including, except for Quebec, patriation and an amending formula.

The Conference was attended on invitation by many observers, including the leaders of opposition parties in Parliament; Senators and Members of the House of Commons, and members of provincial Legislatures; members of the Task Force on National Unity; leaders of national and some provincial native organizations such as the National Indian Brotherhood, the Inuit Tapirisat of Canada, and the Native Council of Canada; and representatives of the Federation of Municipalities of Canada and some provincial municipal associations.

#### 2. THE RENEWAL OF THE CONSTITUTION

There was agreement among First Ministers on:

- the importance and urgency of constitutional change;
- the responsibility that rests on the federal government and provincial governments to find solutions to constitutional problems;



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FEDERAL-PROVINCIAL CONFERENCE  
OF FIRST MINISTERS ON THE ECONOMY

Conference Scenario Outline

Ottawa  
November 27-29, 1978





## SCENARIO OUTLINE

Monday - November 27

### - OPENING OF CONFERENCE

- Welcome - Prime Minister
- Administrative Arrangements - Mr. Henry Davis
- Statement - Prime Minister
- Confirmation of the proposed agenda
- Remarks on sequence of discussions to follow

### ITEM 1

### - ECONOMIC OVERVIEW

- Statement - Mr. Chrétien
- Tabling of CSIP report
- Statements - Provincial Premiers
  - Each Premier to make a general statement on the economic situation.

### - LUNCH

- Continuation of Provincial Premiers' Statements if necessary
- Discussion
- Summing up - Prime Minister

### ITEM 2

### - LABOUR MARKET AND EMPLOYMENT ISSUES

- Statement - Honourable Bud Cullen
- Discussion
- Summing up - Prime Minister
- Adjournment Comments - Prime Minister

Tuesday, November 28

ITEM 3

- PROGRESS REPORT

- 1) Overview on progress achieved on all February commitments
  - Statement - Prime Minister
  - Discussion
- 2) Agriculture - Lead-off by Honourable E. Whelan
  - Discussion
  - Summing up - Prime Minister
- 3) Research and Development - Lead-off by Honourable Judd Buchanan
  - Discussion
  - Summing up - Prime Minister
- 4) Government Regulation - Lead-off by Premier Lyon
  - Tabling of Economic Council Report on Government Regulation
  - Discussion including federal comments by Honourable W. Allmand
  - Summing up - Prime Minister

ITEM 4

- SPECIFIC ITEMS

- 1) Industrial Development - Lead-off by Premier Davis
  - Discussion including federal comments by Honourable J. Horner
  - Summing up - Prime Minister

- LUNCH

ITEM 4 (cont'd)

- 2) Tourism - Lead-off by Premier Hatfield
  - Discussion including federal comments by Honourable J. Horner
  - Summing up - Prime Minister

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Wednesday - November 29

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- Closing of Conference

November 24, 1978



Discussion Paper

First Ministers' Conference  
on the Economy

November 27-29, 1978

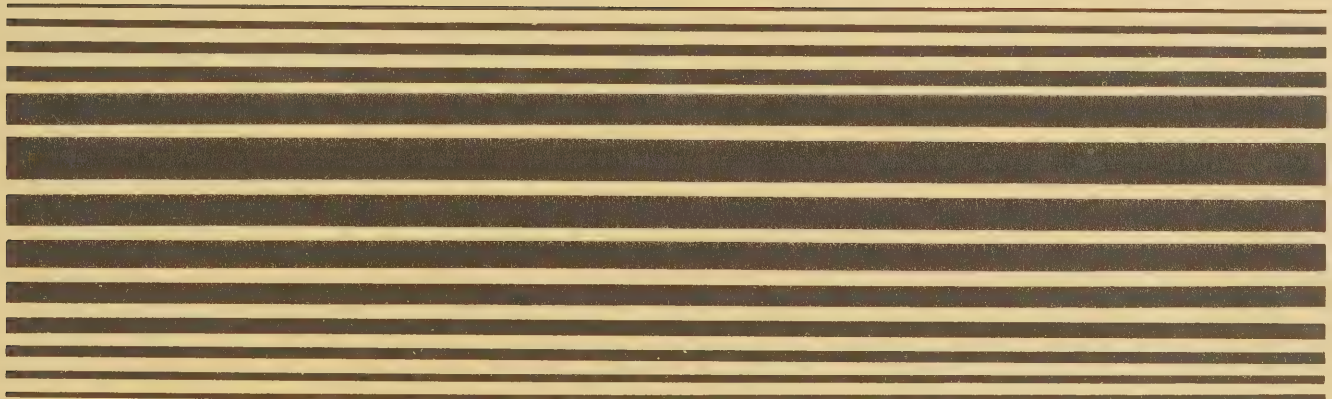
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**Discussion Paper**

**First Ministers' Conference  
on the Economy**

**November 27-29, 1978**

**Industrial Research and Development**

**Ministry of State for Science and Technology**







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## INDUSTRIAL RESEARCH AND DEVELOPMENT

### 1. The Economic Situation

It is clear that research and development has now become recognized as a major area of activity contributing to economic growth and development. Not only has the attention paid to research and development in Canada progressed to the extent that the first ever Federal/Provincial Conference of Ministers on Industrial Research and Development was held on November 8th, but also in most other western countries there is a new focus on establishing science policies to deal with the technological aspects of their activities.

In recent years economists have been finding that the contribution of R&D to economic growth and increases in productivity is both positive and large. A study recently completed by the Ministry of State for Science and Technology (MOSST), comparing research-intensive with low research-intensive industries in Canada, found that the former registered, over a fourteen-year period, a 50.3% higher growth in employment, a 23.5% higher growth in out-put, a 29.4% higher growth in productivity, and a 55.6% lower growth in prices.

Similarly, in an earlier study of economic growth in the United States, the economist Denison estimated the contribution of labour and capital to be 58 per cent and that of other factors comprising primarily technological change, to be 42 per cent of growth. Other studies provide reinforcing conclusions with respect to specific industrial sectors.

In spite of these recognized benefits, the level of R&D in Canada is still disturbingly low. While Canada currently devotes less than 1 per cent of its GNP to research and development, many industrialized countries allocate a substantially higher proportion of their GNP to R&D, more in the order of 2 per cent or higher.

Next, the balance of R&D between the sectors is poor. In most other OECD countries 50 to 65 per cent of R&D is performed by business enterprises. This is in sharp contrast to Canada where only 40 per cent of R&D is carried out by business. In terms of scientists and engineers engaged in R&D, again there is a contrast between Canada, where only about a third are employed in the business sector, and most other OECD countries where over 50 per cent of scientists and engineers are in the business sector. Further, of those scientists and technologists that are engaged in R&D in Canadian manufacturing it seems that only seven research-intensive industries account for close to 90% of them.

Thus, relative to those countries with which we compete most directly, the pattern of R&D activities in Canada seems unbalanced, with a significant deficiency in the business sector.

Another relevant characteristic of the Canadian situation is the very great degree of foreign ownership in Canadian industry. Subsidiaries which perform a significant amount of R&D in Canada appear to rely heavily on their parents' R&D activities. In most cases, subsidiaries have access without direct charge to the entire technical know-how of the parents, including the experience and knowledge of other affiliates. Consequently, most R&D carried out in Canada is primarily directed at adapting the imported technology to meet local market needs and opportunities. Some foreign companies have only a technical service centre in Canada to adapt products or production technology to the Canadian market.

In assessing the impact of foreign companies on Canadian industrial R&D, it is of course obvious that we have benefited from substantial inflows of both funds and technology, and that this continues to be the case. As it is neither efficient nor economically possible for Canadians to be completely self-sufficient on the basis of indigenous R&D, the easy access to foreign funds and technology has had important positive aspects.

However, one consequence of foreign subsidiaries generally doing relatively little innovative R&D and being engaged mainly in adapting products to the Canadian market is that they have little to export. Also a heavy dependence on foreign R&D leaves Canadian industry vulnerable to foreign decision-making, both by the parent company and by its government. Finally, both the great reliance of most subsidiaries on imported technology and the adaptive nature of such R&D as is undertaken by them, seriously limits the employment opportunities for Canadian highly qualified manpower, technicians and technologists, as well as scientists and engineers. In recent years we have invested more heavily in education than any other country except the United States and, relative to job opportunities, we have a serious oversupply of graduates.

In addition to the high level of foreign ownership in Canadian industry, however, there are two other important inherent characteristics of R&D, which tend to exercise a restraining influence with respect to the level of expenditures. These are the facts that research and development is a very risky undertaking, and the pay-back period is long. A company



must have capital available to engage in R&D and often to withstand numerous losses before the prospect of monetary returns becomes tangible.

Individual firms, in deciding on an appropriate level of investment in R&D will, of course, estimate their private returns and act accordingly. The difficulty in this decision-making is that there is often a difference between the private rate of return to an individual company, and the social rate of return to the entire country. For example, the benefits to society of having new communications and computer technology may far outweigh the benefits to any particular company.

Cognizant of the total economic situation described above, governments have taken steps to respond.

## 2. Commitments Made at February Conference

The February communiqué sets out its major agreement on industrial R&D in Section 4(V):

### "Business Environment:

Joint steps will be taken to improve tax incentives or credits to industry for research and development, the expansion of employment opportunities in these areas, and increased dissemination and application of existing technology."

## 3. Follow-up Actions

- 1) On April 10, 1978 the federal budget introduced a tax incentive for R&D providing a 50% special allowance for research and development expenditures over and above the level of R&D expenditures in the previous three years. In order to allow some long-term planning, this incentive was established for a ten-year period.
- 2) Also on April 10 the federal government initiated a \$5.5 million Scientific and Technical Employment Program (STEP). As of October 26th, 226 proposals had been approved involving 300 direct jobs and about 1400 indirect jobs.

On June 1st, the following series of measures was taken:

- 3) The Unsolicited Proposal Fund was expanded.

- 4) The National Research Council's Program of Industry/Laboratory Projects (PILP), which transfer technology to industry, was expanded to include other federal departments.
- 5) A new function of serving as a clearing-house to transfer technology between the government and industry was given to the Canadian Patents and Development Limited crown corporation.
- 6) A commitment to establish five university-based Industrial Research and Innovation Centres was made.
- 7) The concept of establishing national Centres of Excellence appropriate to regional resources was declared, and funds were allocated for seven specific areas of excellence:
  - i) an ice test tank in Newfoundland for cold water engineering.
  - ii) a materials research laboratory in Quebec.
  - iii) an organic soils research station of Agriculture Canada in Quebec.
  - iv) coal research programs in the Maritimes and British Columbia.
  - v) a fermentation program in Saskatchewan.
  - vi) a food research program.
- 8) An increase was made in the budgets of the granting councils for research into areas of national concern.
- 9) The STEP program was expanded to employment in universities and provincial research organizations.
- 10) Additional funds were allocated to an extension of the National Research Council's Technical Information Service, which assists in the transfer of technology, particularly to small firms.

- 11) The federal government declared a national target of 1.5% of GNP for R&D expenditures by 1983.
- 12) On November 8, 1978, after a number of preparatory meetings, and an officials' conference on October 5, Ministers met at a Federal-Provincial Conference on Industrial Research and Development to review the current state of industrial research and development in Canada.

At the meeting they agreed that special measures are required to encourage industrial R&D. Specifically, they agreed-

- (i) to recommend to Finance Ministers and First Ministers that tax measures are well suited to encourage the private sector to perform industrial R&D, that consideration should be given to extending tax incentives for R&D to other stages of the innovation process; and that in devising tax incentives, special consideration should be given to encouraging R&D in small firms;
  - (ii) procurement ought to be used to promote and strengthen research intensive industries and that a sub-committee of the working group on procurement established by Industry Ministers should be set up to examine the matter;
  - (iii) to encourage closer coordination between NRC and each of the provinces to enhance the operation of the Technical Information Service (TIS);
  - (iv) on the importance of the concept of Centres of Excellence, on the need to discuss them further, and on the role which Industrial Innovation Centres could play in the transfer of technology;
  - (v) to endorse the extension of the Scientific and Technical Employment Program for another fiscal year, and to investigate the supply and demand of scientific personnel;
  - (vi) that MOSST should, after consultation with provinces, propose an action plan with respect to the identification of industrial R&D goals and suitable mechanisms to encourage and stimulate the private sector.
- 13) On November 16 the federal budget announced an increase in the investment tax credit for R&D. For small Canadian-controlled firms it is now 25%; for other firms it is 10% except for those in the Atlantic Provinces

and in the Gaspé, where it is 20%. The budget also proposed that the credit be extended indefinitely.

#### 4. Outstanding Issues Facing R&D Activities

In summary, it is generally agreed that the greatest challenge facing industrial research and development is the fact that the overall level of R&D performed in Canada, particularly in the business sector, is very low. The initiatives described above are positive steps by governments to effect an improvement in this crucial area. It will now be incumbent upon the business sector to come forth in like manner. Certainly the national target of R&D expenditures equivalent to 1.5% of GNP cannot be achieved by any single sector. A concerted effort by all concerned is required.

The other continuing challenge is the heavy degree of foreign ownership in Canada's manufacturing industry, with the attendant limitation of R&D which is geared toward the adaptation of imported technology, rather than the development of truly innovative products with a worldwide market. As a priority undertaking governments will have to find means of encouraging more substantive research and development in foreign-owned companies. This is in addition to the increased emphasis which the Foreign Investment Review Agency has lately been placing on research and development in assessing foreign investment proposals.

As far as immediate specific undertakings are concerned, following on from the Federal-Provincial Conference of Ministers on Industrial Research and Development there are some steps which need to be taken. The Ministry of State for Science and Technology has undertaken to develop a plan with respect to industrial research and development goals, and suitable mechanisms for promoting them. This sort of activity will require extensive consultation with provinces, industries, and many other different groups.

Further developmental work is also required in the area of new initiatives to encourage the commercialization of successful research results, and the transfer of developed technology from government and universities to industry, as well as from large companies to small ones.

Also, more discussions with the provinces and the different sectors are required in order to make the concept of Centres of Excellence and Innovation Centres concrete.

Finally, the Conference also showed the realization that the supply and demand of scientific personnel needs to be better monitored.







de techniques, et ce, tant des gouvernements ou des universités à l'industrie, que des grandes sociétés aux petites entreprises.

Les provinces et les divers secteurs devront, pour leur part, participer à d'autres discussions afin de concrétiser les concepts de centres d'excellence et de centres d'innovation.

Enfin, il a été démontré, lors de la conférence, que l'offre et la demande de personnel scientifique doivent être mieux contrôlées.

canadiennes, ce crédit s'établit maintenant à 25 pour cent; pour ce qui est des autres entreprises, il est de 10 pour cent, sauf dans les provinces de l'Atlantique et la Gaspésie, où il s'élève à 20 %. Il est de plus proposé dans le budget que ce crédit soit prolongé indéfiniment.

#### 4. Questions importantes qui se posent face aux activités de R-D

En résumé, il est généralement reconnu que le très faible niveau global de la recherche et du développement exécutés au Canada, particulièrement dans le secteur commercial, constitue le principal défi auquel doit faire face la R-D industrielle. Les initiatives décrites précédemment sont des mesures positives entreprises par les gouvernements en vue d'apporter des améliorations dans ce domaine fondamental. Il incombe maintenant au secteur commercial d'en faire autant. Certes, l'objectif national quant au niveau des dépenses de R-D, fixé à 1,5 pour cent du PNB, ne saurait être atteint par un seul secteur en particulier; toutes les parties en cause devront conjuguier leurs efforts.

La très forte domination exercée, au sein de l'industrie manufacturière canadienne, par des intérêts étrangers, avec les limites que cela suppose en ce qui a trait à la R-D - qui s'orientent vers l'adaptation de techniques importées, plutôt que vers la mise au point de produits vraiment novateurs, qui auraient un marché mondial - constitue l'autre défi à relever de façon soutenue. Les gouvernements devront découvrir, en priorité, des méthodes afin de promouvoir la R-D autonome chez les filiales canadiennes de sociétés étrangères. Ces mesures viendront s'ajouter à l'importance accrue que l'Agence d'examen de l'investissement étranger accorde depuis quelque temps à la R-D lorsqu'elle évalue des propositions d'investissement étranger.

Pour ce qui est des mesures concrètes à prendre immédiatement, certaines découlent, de façon évidente, de la Conférence fédérale-provinciale de ministres sur la recherche et le développement dans l'industrie. Le ministre d'Etat chargé des Sciences et de la Technologie a entrepris de mettre au point un plan d'action relativement aux buts de la R-D industrielle et aux mécanismes propres à les promouvoir. Ce genre d'activité exigera une consultation approfondie avec les provinces, avec l'industrie et avec nombre de différents groupes.

On devra s'attacher davantage à définir les initiatives susceptibles de favoriser, d'une part, la commercialisation des résultats de la recherche couronnée de succès et, d'autre part, le transfert



- Lors de cette rencontre, les participants ont convenu qu'il était nécessaire de prendre des mesures spéciales pour encourager la R-D industrielle. Plus précisément, ils ont convenu :
- i) de faire savoir aux ministres des Finances et aux premiers ministres que les mesures fiscales sont particulièrement susceptibles d'encourager le secteur privé à effectuer de la R-D industrielle, qu'il importe d'envisager la possibilité d'étendre les stimulants fiscaux relatifs à la R-D aux autres phases du processus d'innovation et que, lors de l'élaboration de ces stimulants fiscaux, il faudra s'attacher tout particulièrement à encourager la R-D au sein des petites entreprises;
  - ii) qu'on devrait avoir recours à la politique d'acquisition pour favoriser et pour renforcer les industries à forte proportion de recherche et qu'un sous-comité du groupe de travail sur l'acquisition, établi par les ministres de l'Industrie, devrait être créé pour étudier la question;
  - iii) d'encourager une coordination plus étroite entre le CNRC et chacune des provinces en vue d'améliorer le fonctionnement du Service d'information technique (SIT);
  - iv) de l'importance du concept des centres d'excellence, et du besoin d'en discuter davantage, et du rôle que pourraient jouer les centres d'innovation industrielle dans le transfert de techniques;
  - v) d'appuyer le prolongement du Programme de création d'emplois scientifiques et techniques pour une autre année financière et d'étudier en détail l'offre et la demande de personnel scientifique;
  - vi) que le MEST, à la suite de consultations avec la province, devrait proposer un plan d'action quant à l'identification des buts de la R-D industrielle et de mécanismes propres à encourager et à stimuler le secteur privé.
- 13) Le 16 novembre, le gouvernement fédéral a annoncé, dans son budget, une augmentation du crédit d'impôt à l'investissement pour la R-D. Pour les petites entreprises

- 7) On a adopté le concept de centres d'excellence nationaux, convenant aux ressources régionales, et des fonds ont été accordés aux six domaines d'excellence suivants:
  - i) un réservoir à glace destiné à l'essai de techniques en eaux froides à Terre-Neuve;
  - ii) un laboratoire de recherche sur les matériaux au Québec;
  - iii) un institut de recherche d'Agriculture Canada au Québec relativement aux substances organiques des sols;
  - iv) des programmes de recherche sur le charbon dans les Maritimes et en Colombie-Britannique;
  - v) un programme de recherche sur la fermentation en Saskatchewan;
  - vi) un programme de recherche en alimentation.
- 8) Les budgets des conseils de subvention à l'égard de la recherche dans les domaines d'intérêt national ont été haussés.
- 9) Le Programme CEST d'emplois a été étendu pour englober les universités et les organismes provinciaux de recherche.
- 10) Des fonds supplémentaires ont été accordés pour étendre, aux petites entreprises en particulier, le service d'information technique du Conseil national de recherches du Canada, qui participe au transfert de techniques.
- 11) Le gouvernement fédéral s'est fixé un objectif national, soit celui d'atteindre un niveau de dépenses de R-D de 1,5 pour cent du PNB d'ici à 1983.
- 12) À la suite de rencontres préparatoires et d'une conférence de fonctionnaires, tenue le 5 octobre 1978, les ministres se sont réunis, le 8 novembre 1978, dans le cadre d'une conférence fédérale-provinciale sur la recherche et le développement dans l'industrie, pour étudier l'état de la R-D au Canada.

" Climat commercial :

Des mesures conjointes seront prises pour accroître les encouragements fiscaux ou crédits accordés à l'industrie au profit de la recherche et du développement, pour accroître les possibilités d'emploi dans ces domaines et pour augmenter la diffusion et l'application des techniques déjà mises au point. "

3. Mesures de rappel

- 1) Le 10 avril 1978, lors de son budget, le gouvernement fédéral mettait en place un stimulant fiscal à la R-D consistant en une déduction spéciale de 50 pour cent des dépenses de R-D dépassant la moyenne des dépenses créées à la R-D au cours des trois années précédentes. Afin de permettre une planification à long terme, on prévoyait que ce programme serait en vigueur pendant dix ans.
  - 2) Toujours à cette occasion, le gouvernement fédéral mettait de plus sur pied le Programme de création d'emplois scientifiques et techniques (CEST), représentant un stimulant de \$ 5,5 millions. Au 26 octobre, on avait approuvé 226 propositions entraînant la création de 300 emplois directs et de quelque 1 400 emplois indirects.
- Le 1<sup>er</sup> juin, les mesures suivantes furent prises :

- 3) Le Fonds relatif aux propositions spontanées a été augmenté.
- 4) Le Programme pilote entre l'industrie et les laboratoires (PIL), du Conseil national de recherches du Canada, grâce auquel s'effectue le transfert de techniques à l'industrie, a été élargi pour englober d'autres ministères fédéraux.
- 5) La Société canadienne des brevets et d'exploitation limitée, une société de la couronne, s'est vu attribuer un nouveau rôle, soit celui de centre d'échange de techniques entre le gouvernement et l'industrie.
- 6) On s'est engagé à établir, au sein des universités, cinq centres de recherche industrielle et d'innovation.

Le communiqué de février expose, à l'article 4 (V), l'accord principal conclu quant à la R-D industrielle :

## 2. Engagements pris lors de la conférence de février

Instruits de cette situation économique, les gouvernements ont pris les mesures de circonstance.

Lorsqu'elle décide du montant qu'elle investira dans la R-D, l'entreprise doit naturellement évaluer ce qu'elle pourra en retirer et agir en conséquence. Il est difficile de prendre de telles décisions puisqu'il n'y a pas toujours compatibilité entre le taux de récupération recherché par l'entreprise, sur le plan privé, et les avantages que pourra en retirer, sur le plan social, l'ensemble du pays. Pour ne prendre qu'un exemple, la société pourra profiter beaucoup plus que n'importe quelle entreprise de l'exploitation de nouveaux moyens de communication ou du développement de techniques informatiques.

Outre le haut degré de domination exercée, au sein de l'industrie canadienne, par les intérêts étrangers, deux autres caractéristiques importantes, inhérentes à la R-D, portent à limiter les dépenses à ce chapitre : la R-D présente de grands risques et la période de récupération est longue. Une entreprise doit disposer des fonds nécessaires pour se lancer dans la R-D, et doit souvent pouvoir supporter de nombreuses pertes avant d'entrevoir la possibilité de récupérer ce qu'elle a investi.

Toutefois, puisque les filiales de sociétés étrangères n'effectuent, en règle générale, que relativement peu de R-D novatrice et qu'elles travaillent surtout à adapter leurs produits au marché canadien, elles ont peu de biens à exporter. De plus, cette forte dépendance envers la R-D étrangère fait que l'industrie canadienne est assujétie aux décisions prises à l'étranger, tant par la société mère que par son gouvernement. Enfin, aussi bien du fait de la grande dépendance de la plupart des filiales à l'égard de techniques importées que du caractère adaptatif de la R-D dont elles se chargent, les possibilités d'emploi de la main-d'oeuvre canadienne hautement qualifiée, et notamment des techniciens, des technologistes, des hommes de science et des ingénieurs, se trouvent limitées. Or, comme le Canada a été le pays qui, exception faite des États-Unis, a le plus investi dans l'enseignement au cours des dernières années, nous avons maintenant, compte tenu des possibilités d'emploi, un surplus de diplômés.



Lorsqu'on évalue l'influence qu'exercent les sociétés étrangères sur la R-D industrielle au Canada, il ressort naturellement de l'analyse que nous avons bénéficié d'importants apports financiers et techniques, et que cela se poursuit. Puisqu'il n'est ni pratique ni économiquement possible pour les Canadiens de ne compter que sur la R-D interne, l'accès facile aux techniques et aux fonds étrangers a eu d'appréciables effets positifs.

Il convient également de noter le nombre très élevé, au sein de l'industrie canadienne, d'entreprises sous domination d'intérêts étrangers, autre caractéristique de la situation au Canada. Les filiales de grandes sociétés qui effectuent une importante part de R-D au Canada semblent compter fortement sur les activités de leur société mère dans ce domaine. Dans la plupart des cas, ces filiales ont accès, sans frais directs, à des connaissances techniques acquises de la société mère, y compris l'expérience et les connaissances des autres filiales. En conséquence, la majeure partie de la R-D effectuée au Canada s'attache principalement à adapter la technique importée aux besoins et aux possibilités du marché local. Certaines sociétés étrangères n'ont, au Canada, qu'un centre de services techniques, où l'on adapte les produits ou les techniques de production au marché canadien.

Ainsi, la structure des activités de R-D au Canada semble déséquilibrée par rapport à celle des pays auxquels il fait le plus directement concurrence, et démontre une lacune importante dans le secteur commercial.

Ensuite, la répartition sectorielle de la R-D est inégale. Dans la plupart des autres pays de l'OCDE, ce sont des entreprises commerciales qui effectuent de 50 à 65 pour cent de la R-D; il s'agit-là d'un contraste frappant avec le Canada, où les entreprises n'assument que 40 pour cent de la R-D. Pour ce qui est des hommes de science et des ingénieurs qui se consacrent à la R-D, on remarque, là encore, un net contraste entre le Canada, où près du tiers seulement de ces professionnels sont à l'emploi du secteur commercial, et la plupart des autres pays de l'OCDE, où ce même secteur emploie plus de 50 pour cent des hommes de science et des ingénieurs. En outre, près de 90 pour cent de ces hommes de science et technologues affectés à la R-D au sein du secteur manufacturier canadien se retrouveraient dans seulement sept industries à forte proportion de recherche.

1. La situation économique

De toute évidence, on considère désormais la recherche et le développement (R-D) comme un des domaines qui contribuent le plus à la croissance et au développement économiques. Non seulement, au Canada, l'attention accordée à la R-D a-t-elle mené à la tenue, le 8 novembre dernier, de la toute première Conférence fédérale-provinciale de ministres sur la recherche et le développement, mais encore, dans la plupart des pays de l'hémisphère occidental, on met un nouvel accent sur l'établissement de lignes de conduite en matière de sciences qui permettront de traiter des aspects technologiques de leurs activités.

Les économistes ont découvert, au cours des dernières années, que l'apport de la R-D à la croissance économique et à l'accroissement de la productivité est à la fois positif et important. Une étude récente du ministère d'État chargé des Sciences et de la Technologie (MEST) compare entre elles les industries à forte et à faible proportion de recherche; elle révèle que, comparativement aux secondes, les premières ont connu, au cours d'une période de quatorze ans, un taux d'augmentation de l'emploi de 50,3 pour cent plus élevé, un taux de croissance de la production de 23,5 pour cent supérieur et un taux d'accroissement de la productivité de 29,4 pour cent plus élevé, tout en enregistrant un taux d'augmentation des prix plus faible de 55,6 pour cent.

De même, dans une étude plus ancienne de la croissance économique aux États-Unis, l'économiste Denison évaluait à 58 pour cent la contribution du capital et du travail à la croissance et, par conséquent, à 42 pour cent celle d'autres facteurs, parmi lesquels se trouve, principalement, l'évolution technologique. D'autres études viennent encore renforcer ces conclusions relativement à des secteurs industriels bien précis.

En dépit de ces avantages reconnus, la R-D se situe encore, au Canada, à un faible niveau, ce qui ne manque pas d'inquiéter. Même si, à l'heure actuelle, le Canada consacre moins de 1 pour cent de son PNB à la R-D, nombreux sont les pays industrialisés qui lui réservent une proportion considérablement plus élevée de leur PNB, de l'ordre de 2 pour cent ou plus.



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Documentation

**Conférence  
des premiers ministres  
sur l'économie**

Du 27 au 29 novembre 1978

**Recherche et développement industriels**  
Ministère d'État chargé des Sciences et de la Technologie



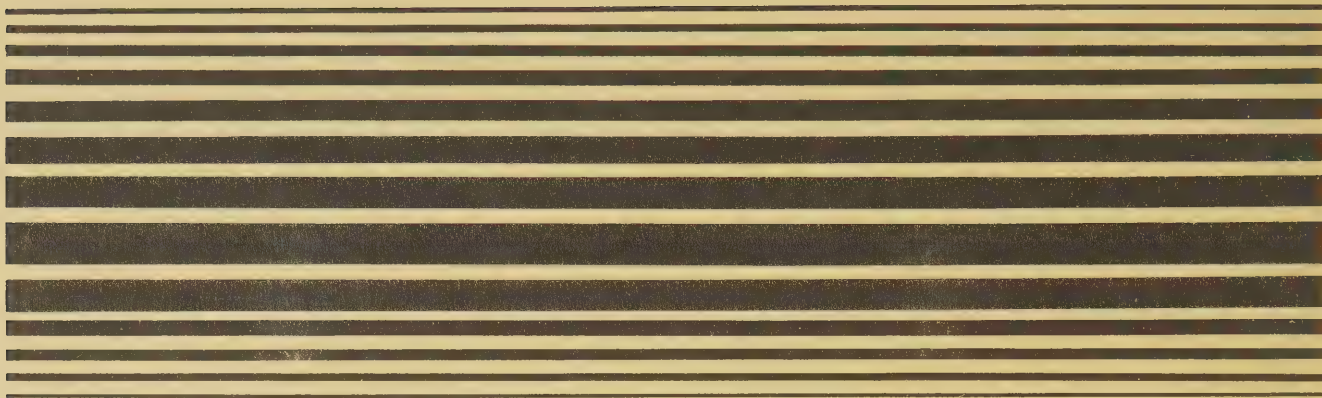


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Discussion Paper

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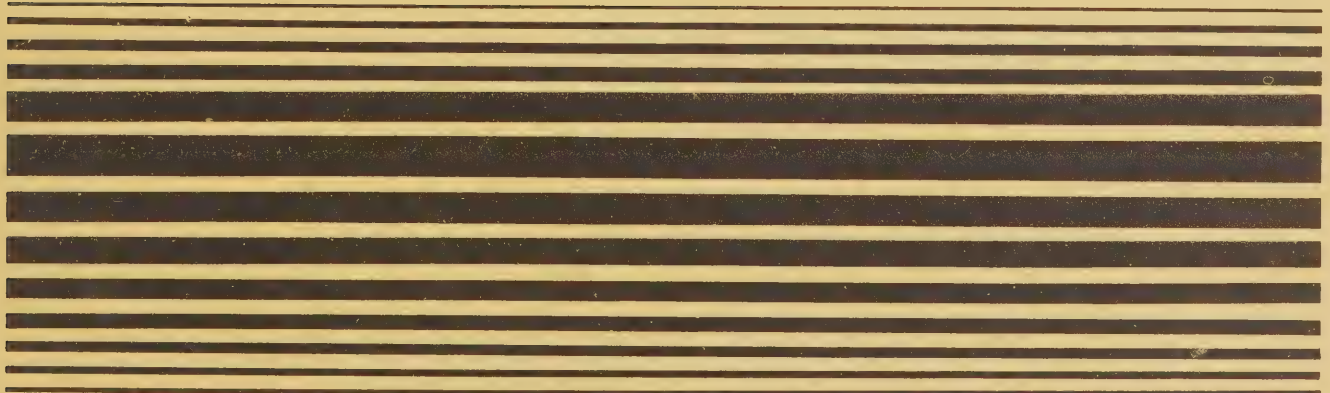
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## INDUSTRIAL DEVELOPMENT ISSUES

### INTRODUCTION

1. The contribution of the industrial sector to Canadian economic growth in the post-war period was discussed in a background paper released at the Federal/Provincial Conference of Industry Ministers in the fall of 1977. This paper showed that the manufacturing sector had prospered during the 1950's and 1960's making a major contribution to growth in Canadian incomes and employment. Certain developments however occurred both domestically and internationally in the 1970's which cast doubt upon future prospects. While the general thrust of this earlier paper remains valid, a number of changes have since taken place in the economic and policy environments which suggest that a re-examination is needed and some change in emphasis is now appropriate. Indeed, some of these changes have become apparent through the consultative process with which the paper was associated. The present paper then examines current industrial performance in view of recent policy and economic developments, looks briefly at some of the policy initiatives implemented over the past year, and discusses a number of outstanding issues identifying possible areas for further policy action.

### THE ECONOMIC SETTING AND OUTLOOK

2. The 1977 paper attributed recent weakness in industrial performance to a number of factors including a significant deterioration in Canada's cost position, a greater degree of self-interest in United States economic policy, the emergence of Japan and the European countries as full-fledged industrialized economies, the rapid industrialization of developing nations, the low level of the Canadian R&D effort, and the higher degree of political uncertainty in Canada in the past few years. These concerns were manifested in a decline in manufacturing employment, questionable profit and investment performance, low rates of capacity utilization, and an increasing trade deficit in manufactured goods, particularly in end products.

3. While most of these concerns remain very real, a number of recent developments have taken place which taken together make the outlook appear somewhat more optimistic. There has been a modest but reasonably sustained recovery in the Canadian economy over the last eighteen months following a sharp slowdown in the second half of 1976. In real terms, GNP grew by 2.7 percent in 1977 over 1976 levels. In the first half of 1978, real output increased by 4 percent, a rate well above the OECD average second only to the growth rate achieved by Japan. The growth in the economy was mainly derived from the continued strength of merchandise exports.

4. The strength in Canadian export performance is in part attributed to the major depreciation in the value of the Canadian dollar which has occurred since 1976 as well as to strength in the U.S. economy. The Canadian dollar has declined by over 14% against the United States dollar since the beginning of 1977, and it has depreciated by about 44 percent against the Japanese yen and by over 25% against other major European currencies.

5. The competitive position of Canadian producers has also been enhanced by the relative moderation in wage settlements that has occurred in the past two years. Wage settlements involving firms with 500 or more employees showed an annual increase in the first half of 1978 of 6.5% compared to increases of 10.2% and 7.8% recorded in 1976 and 1977, respectively. Manufacturing wage settlements in Canada included increases over the life of the contract of 6.5% in the first half of 1978 after gains of 8.8% and 7.0% in 1976 and 1977. Taking productivity gains into account, unit labour costs increased by 3.2% in the economy as a whole in the first half of 1978, and 0.6% for manufacturing, a very respectable performance by international standards. Expressed in U.S. currency, Canadian unit labour costs have actually declined this year. A related accomplishment is the improved labour relations climate apparent in 1977 and 1978, with total man days lost from industrial disputes declining from almost 12 million in 1976 to less than 4 million in 1977. While the total will be significantly higher in 1978, the total will remain considerably below the levels reached in 1975 and 1976.

6. With respect to the energy situation, exploration and development activities in Canada have shown more optimistic results in the recent period, with important new oil discoveries, significant expansion in estimated gas reserves, and discovery of large new uranium deposits. These developments have to some extent allayed concerns about security of energy supply in Canada and made Canada look more attractive as an international investment location. The signing of the Canada-U.S. Alcan Pipeline agreement in 1977, and the recent approval of the project by the U.S. Congress indicates that this major undertaking will be going forward in the 1980's, resulting in significant new opportunities for companies supplying materials and equipment for pipeline construction and related activities during this period.

7. The manufacturing sector has responded positively to these developments and better performance is indicated in a number of areas.

- 1) In the first half of 1978, real manufacturing output rose at an annual rate of 6.6%, well above the overall growth rate for the economy.
- 2) Manufacturing employment has increased significantly. In the first half of 1978, employment in manufacturing grew by over four percent or 78,000 jobs, reversing the trend of recent years towards reduced employment in the manufacturing sector. However, employment has still not regained its 1974 peak level.



- 3) Manufacturing shipments increased at an annual rate of 19 percent in the first half of 1978, compared to 12 percent in 1977, reflecting the recent advance in manufacturing activity. Further strength is indicated by an increase in unfilled orders of almost 18 percent at annual rates while finished goods inventories grew only moderately.
- 4) Canadian exports of manufactured goods increased by almost 21 percent in 1977, and by a further 23 percent at annual rates in the first half of 1978. Canadian imports of manufactured goods grew by 13.9 percent in 1977 and at an annual rate of 17 percent in the first half of 1978. The trade deficit on manufactured goods has been reduced from the roughly \$4 billion deficit incurred in 1977 to around \$3 billion at an annual rate, in the first half of 1978.
- 5) Capacity utilization rates in manufacturing remained at around 84 percent in 1976 and 1977, and only very recently have begun to move upwards. Despite this excess capacity, our recent survey of the investment intentions of 300 large firms indicated a real investment increase of 8% for 1979 over 1978. This suggests a total increase of 3-5% in the level of real business spending on plant and equipment in Canada, compared to about 2% in 1978 and 1.5% in 1977.
- 6) Profits after tax in manufacturing in 1977 were 12 percent above the level recorded in 1976. Profit rates continued to increase in the first quarter of 1978, with profits in this period up by a further 8.1 percent. Profit improvement, however, continues to be somewhat spotty, with industries closely tied to the export sector, including wood products, forestry, paper and allied goods, and primary metals enjoying the most significant profit gains in the first quarter of 1978.

8. The above developments indicate the progress made in the manufacturing sector in 1977 and 1978 in strengthening its position to make a greater contribution to sustained economic growth in the 1980's. There are, however, some areas such as trade and investment, where considerable room for improvement remains. Uncertainty about economic developments in the United States casts a shadow upon Canadian prospects. A sustained policy effort is therefore required. The following sections of this paper examine how government policy changes have contributed to the strengthening of the industrial sector, and further initiatives which might be necessary in this regard.

#### THE COMMITMENTS OF FIRST MINISTERS

9. Having reviewed the difficult competitive situation facing the industrial economy, Federal/Provincial First Ministers in their Conference of February, 1978, made a number of commitments with a view to improving industrial prospects. A wide range of policy instruments

influence industrial development. Macro-economic policies affect aggregate demand, investment, and price performance. Framework policies such as taxation, labour market policies, innovation and technology, trade policy, public procurement, environmental protection, and other government regulation have an impact on the structure and cost of industrial operations. Sectoral policies deal with specific industry problems and opportunities. Finally, adjustment policies are designed to handle the redeployment of labour and capital displaced by competitive change.

10. While most of the major policy areas considered by the First Ministers included matters relevant to the performance of the industrial sector, particularly important were undertakings identified under the headings The Business Environment, Trade and Industrial Policy, and Manufacturing Industries. As an overriding consideration, First Ministers agreed that the expansion of jobs should come to the largest extent possible from business investment in the private sector, and made a related commitment that government expenditure growth should be held lower than the average rate of growth in real output. More specific commitments under the aforementioned headings are outlined below.

#### The Business Environment

11. In this context, there was agreement to refer the question of the impact of government regulation to the Economic Council for study and recommendations for action. Another important result was the commitment to take joint steps to improve tax credits or incentives to industry for research and development, the expansion of employment opportunities in these areas, and increased dissemination and application of existing technology.

#### Trade and Industrial Policy

12. It was agreed that Canadians should be encouraged to buy Canadian produced goods where quality and price are comparable to imports. There was consensus that Canada should continue to participate fully in the multilateral trade negotiations with full consultation with the provinces, and that efforts to expand exports should be intensified. First Ministers agreed that governments should move with dispatch to indicate the type of assistance for adjustment to new trade arrangements that would be available. Finally, it was undertaken to take measures to increase Canada's share of auto production and investment.

#### Manufacturing Industries

13. First Ministers undertook to seek out the active involvement of the private sector (including business and labour) in federal/provincial discussions on specific development programs tailored to the particular requirements of each of the manufacturing sectors.

## FOLLOW UP ACTIONS

14. Subsequently, federal and provincial governments have made a major effort to meet these commitments. Governments have placed strong emphasis on expenditure restraint and fiscal responsibility, with the federal government announcing expenditure cuts of \$2.5 billion in August, 1978. In addition, important initiatives have been taken in a number of more specific areas.

- 1) The Economic Council of Canada has launched its study of the impact of government regulation on the Canadian economy. Terms of reference for the study call for the Council to make an interim report by December 1979 and a final report by December, 1980. The Council will report on progress of its study to the November 1978 First Ministers' Conference.
- 2) In the federal budget of April, 1978, the investment tax credit was increased to cover 150% of new capital and current expenditures for industrial research and development, up from 100%. Further, on June 1, 1978, a new government commitment to encouraging R&D activity was announced, with increased incentives to encourage the transfer of technology from government laboratories to industry, to improve the contribution of universities to industrial capability, and to more effectively use government procurement to accelerate technological development.
- 3) In May 1978, the federal government implemented a "Shop Canada" Program to encourage Canadians to purchase domestically manufactured goods. In addition, a number of the provinces have undertaken similar initiatives.
- 4) Over the past year as the multilateral trade negotiations have intensified, the Canadian Co-ordinator for the MTN and his staff have been involved in extensive consultations with each of the provinces and with a broad spectrum of the Canadian business community. The consultations have been far more detailed and intimate than ever undertaken in the past and have been an important element in the development of Canada's position on individual tariff items and the range of non-tariff issues under negotiation.
- 5) Significant changes have recently been announced in the industrial support programs of the Department of Industry, Trade and Commerce, intended to make the programs more effective instruments to help firms adjust to the competitive challenges of the 1980's. Major changes include an increase in the Enterprise Development Program loan guarantee ceiling from \$350 million to \$1 billion, increased financial support for innovation and restructuring projects, new measures to assist in mergers between strong and weak firms, and major improvements and expansion of export promotion efforts including PEMD, special promotional projects, and risk insurance. A special MTN Panel

the various policy responses.

- 6) Federal and provincial industry ministers should meet in early 1979 to further consider the progress of the Tier II and Sector Task Force responses, the work of the export review committee, and the future directions for the consultative process.

#### CONCLUSION

16. While a number of basic structural problems still constrain the performance of the industrial sector, there are encouraging signs of progress. Canadian goods are now more competitive at home and abroad. There have been substantive changes in the industrial policy framework since the First Ministers' Conference last February. The work of the industry sector task forces and the Tier II Committee has identified a number of major policy areas where further initiatives are required. Continued effort by governments, business and labour is required to build on this progress.







4. Un comité d'examen composé de représentants du secteur privé, a été constitué en vue d'examiner toute la gamme des activités de promotion commerciale du ministère de l'Industrie et du Commerce et des marchés éventuels pour l'exportation canadienne. Ce comité présentera son rapport d'ici le 30 juin 1979 et ses travaux intéresseront sûrement les deux paliers de gouvernement; il importe qu'il soit appuyé sans réserve.

5. De l'opinion de tous, le processus de consultation a été un instrument très valable, tant pour le milieu des affaires, le salariat que pour le gouvernement et il importe qu'un mécanisme quelconque de consultation demeure en place pour donner suite aux présentes recommandations et examiner de nouvelles questions. Ainsi les gouvernements devraient adresser un rapport au Comité de deuxième palier et aux groupes consultatifs sectoriels, examinant la pertinence des différentes politiques mises de l'avant.

6. Les ministres de l'Industrie des gouvernements fédéral et provinciaux se réuniront au début de 1979 pour réexaminer les résultats des mesures recommandées par le Comité du deuxième palier et les groupes consultatifs sectoriels, le travail du comité d'examen des exportations et l'orientation que devra prendre le processus de consultation.

## CONCLUSION

17. Bien qu'un certain nombre de problèmes fondamentaux d'ordre structurel restent encore le rendement de l'industrie, les progrès sont encourageants. Les produits canadiens sont beaucoup plus concurrentiels, tant au pays qu'à l'étranger. Des modifications sensibles ont été apportées au cadre de la politique industrielle depuis la conférence des Premiers ministres, en février dernier. Les travaux des groupes consultatifs sectoriels auprès de l'Industrie et du Comité de deuxième palier ont permis de cerner bon nombre de secteurs de politique exigeant la prise d'autres initiatives. Pour rester dans la bonne voie, il faut que les efforts des gouvernements, du milieu des affaires et du salariat ne soient point démentis.

de nouvelles perspectives sur un certain nombre de questions importantes ont surgi au cours de l'exercice de consultation. Voici un certain nombre de secteurs importants où il pourrait y avoir lieu d'adopter éventuellement des politiques.

1. L'économie canadienne fonctionne encore en deçà de ses possibilités, à cause du taux toujours élevé d'inflation et de chômage et de l'excédent marqué de capacité industrielle. Le Canada ne saurait s'en remettre pour le moment à la croissance économique d'autres pays industrialisés pour stimuler sa propre relance économique, car les autres pays sont aux prises avec des problèmes du même genre. Il faut donc continuer d'accorder une haute priorité au déploiement des politiques macro-économiques et des politiques de stabilisation, afin d'améliorer l'ensemble du rendement industriel.

2. Le rapport du Comité de deuxième palier met de l'avant des recommandations concernant un bon nombre de secteurs de politique déterminés chacun des groupes consultatifs sectoriels. Voici les secteurs de politique cernés: la conjoncture économique, la politique commerciale et les NCM, la main-d'œuvre et les relations de travail, la taxation, la recherche et le développement, les politiques d'achats gouvernementaux et la rationalisation. Les ministres de l'Industrie des gouvernements provinciaux et fédéral ont transmis les mesures qu'ils envisagent de prendre pour donner suite à ces recommandations dans un rapport distinct qui sera présenté aux Premiers ministres. Les ministres de l'Industrie ont convenu que ce rapport constituait une excellente réponse aux recommandations du Comité de deuxième palier. Il importe que les Premiers ministres appuient ces mesures et fassent en sorte que les travaux soient amorcés avec célérité dans tous les secteurs de politique mentionnés. Nous leur demandons de s'intéresser particulièrement aux programmes de formation de la main-d'œuvre, à l'uniformisation des codes du travail et des procédures d'accréditation professionnelles ainsi qu'à l'élaboration de mécanismes de collaboration afin que les achats du secteur public servent aux fins de l'expansion industrielle.

3. De plus, les gouvernements fédéral et provinciaux sont en train d'élaborer des mesures qui donneront suite aux autres recommandations formulées par chacun des vingt-deux groupes consultatifs sectoriels. Il faut donc mettre ces mesures en oeuvre le plus tôt possible en consultant de façon régulière les représentants du Gouvernement, du salariat et du milieu des affaires.



16. Ces nouvelles politiques, ainsi que les réalisations économiques favorables dont il a déjà été question dans le présent document, ont contribué au rendement supérieur du secteur. Elles tenaient compte d'un grand nombre d'inquiétudes exprimées par les groupes consultatifs de secteurs industriels. Il n'en reste pas moins que l'apport de l'industrie manufacturière continue d'être bridé par des contraintes structurelles et institutionnelles et que

## POLITIQUES

### AUTRES SECTEURS OU IL POURRAIT Y AVOIR LIEU D'ADOPTER DES

gouvernement.

d'obtenir des renseignements sur les programmes et services du qui sert de plaque tournante pour les hommes d'affaires désireux l'industrie et du Commerce a constitué un centre des entreprises de collage d'enseignement général. Enfin, le ministère de les petites entreprises pour les nouveaux diplômés d'université ou de l'ordre de \$5,4 millions, aux fins de créer des emplois dans d'intégration des diplômés à la petite entreprise, doté de crédits de répondre à un questionnaire. On a aussi lancé un Programme Statistique Canada exécutera 265 000 entreprises de l'obligation réduction de la paperasserie a été constitué; en outre, prendra des mesures de contrôle à cet égard. Un Bureau de fournisseurs sous-traitent des travaux aux petites entreprises et Approvisionnement et Services exigera que ses principaux Chambre des communes en mai 1978. Le ministère des participation au capital de la petite entreprise a été déposé à la capital. Un document de travail de grande portée sur la déductions plus élevées sont désormais autorisées pour pertes en entreprises d'un parent à un enfant ou petit-enfant; des législative qui permet le transfert en franchise de petites fédérale de vente et de la taxe d'accise; on a adopté une mesure annuelles sont inférieures à \$50 000 ont été exemptées de la taxe domaine de la fiscalité, tous les fabricants dont les ventes soulager de fardeaux qui les irritaient depuis longtemps. Dans le de petites entreprises des stimulants constructifs et à les petite entreprise a pris des mesures destinées à offrir aux chefs En plus de ces initiatives, le ministre d'Etat à la

7. Des consultations approfondies entre le milieu des affaires, le salariat et le gouvernement se poursuivent depuis le printemps de 1978, sous les auspices de 23 groupes consultatifs de secteurs industriels. Le gouvernement fédéral et les gouvernements provinciaux ont accordé une très haute priorité à l'élaboration de réponses concrètes aux recommandations de tous les groupes consultatifs et à celles du comité de deuxième palier; ces réponses sont inscrites à l'ordre du jour de la réunion de novembre des Premiers ministres.

4. Depuis un an, soit avec l'intensification des négociations commerciales multilatérales, le coordonnateur des NCM pour le Canada et son personnel participent à des consultations poussées avec chacune des provinces et avec de nombreux représentants du milieu des affaires. Les consultations ont été beaucoup plus détaillées et approfondies que dans le passé et elles ont joué un rôle prépondérant dans l'orientation que le Canada a adoptée pour la négociation de chacun des articles tarifaires et de la gamme de questions non tarifaires.

5. Des modifications sensibles ont récemment été annoncées aux programmes d'aide à l'industrie du ministère de l'Industrie et du Commerce; elles sont destinées à rendre les programmes mieux en mesure d'aider les entreprises à satisfaire aux impératifs des années 1980 en matière de concurrence. Les principaux changements comprennent le relèvement de \$350 millions à un milliard de dollars du plafond de garantie des prêts en vertu du Programme d'expansion des entreprises, l'accroissement de l'aide financière aux projets d'innovation et de restructuration, de nouvelles mesures d'aide à la fusion d'entreprises fortes et faibles, ainsi qu'une importante amélioration et expansion des efforts de promotion des exportations, y compris le PEMD, des projets spéciaux de promotion et l'assurance-risque. Un groupe spécial des NCM sera constitué et s'occupera des cas d'entreprises touchées par les NCM. Ces mesures viennent compléter les mesures prises dans le cadre des programmes de Main-d'œuvre Canada en vue de solutionner les problèmes d'adaptation au travail.

6. De l'aide financière de l'ordre de \$68 millions a été consentie aux fins de la construction d'une nouvelle usine de fabrication de moteurs à Windsor (Ontario), qui créera 2 600 emplois dans l'industrie de l'automobile. Cette aide financière s'imposait pour compenser d'autres offres semblables de compétences concurrentes aux Etats-Unis. Le gouvernement fédéral a également confié à l'ancien sous-ministre de Finances, M. S. S. Reisman, la tâche d'examiner la possibilité de mettre sur pied une industrie de l'automobile canadienne, bien équilibrée et compétitive sur le plan international, et de formuler des recommandations à ce titre. Son rapport devrait être présenté en novembre 1978. Le Gouvernement a en outre instauré un régime de remise des droits de douane sur les pièces d'automobile afin d'inciter les fabricants de véhicules étrangers à acheter leurs pièces au Canada.

13. Les Premiers ministres se sont engagés à solliciter la participation active du secteur privé (y compris le milieu des affaires et le salariat) à des discussions fédérales-provinciales sur l'élaboration de programmes expressément axés sur les besoins propres à chacun des secteurs de l'industrie manufacturière.

#### LA SUITE DONNÉE AUX ENGAGEMENTS

14. Par la suite, le gouvernement fédéral et les gouvernements provinciaux ont déployé beaucoup d'efforts pour respecter ces engagements. Les gouvernements ont mis fortement l'accent sur les restrictions budgétaires et l'imputabilité financière, et le gouvernement fédéral a, en août 1978, annoncé des réductions de l'ordre de \$2,5 milliards dans ses dépenses. En outre, d'importantes initiatives ont été prises dans un certain nombre de secteurs plus précis.

1. Le Conseil économique du Canada a entrepris une étude des répercussions de la réglementation gouvernementale sur l'économie canadienne. D'après le mandat de l'étude, le Conseil doit présenter un rapport provisoire d'ici le mois de décembre 1979 et déposer son rapport définitif d'ici le mois de décembre 1980. Le Conseil rendra compte de l'état de ses travaux lors de la conférence des premiers ministres en novembre 1978.

2. Dans le budget fédéral d'avril 1978, le crédit d'impôt aux investissements est passé de 100% à 150% des nouvelles dépenses en immobilisations et des dépenses courantes au chapitre de la recherche et du développement industriels. De plus, le gouvernement a annoncé qu'il s'engageait à encourager la recherche et le développement, par l'accroissement des stimulants destinés à favoriser le transfert de la technologie des laboratoires de l'Etat à l'industrie, à relever l'apport des universités à la capacité industrielle et à utiliser plus efficacement les achats de l'Etat aux fins d'accélérer l'expansion technologique.

3. En mai 1978, le gouvernement fédéral a lancé un programme "Magasins à la canadienne" aux fins d'encourager les Canadiens à acheter des produits de fabrication canadienne. En outre, un certain nombre de provinces ont pris des mesures semblables.



sectorielles traitent de problèmes et de possibilités propres à des industries spécifiques. Enfin, les politiques d'adaptation ont pour objet de voir au redéploiement de la main-d'œuvre et du capital déplacées par l'évolution de la concurrence.

10. Bien que la plupart des grands secteurs de politique sur lesquels se sont penchés les Premiers ministres aient touché des questions pertinentes au rendement de l'industrie

manufacturière, les engagements pris à l'égard des rubriques intitulées le milieu des affaires, la politique commerciale et industrielle, les politiques en matière de main-d'œuvre et les industries manufacturières se révèlent particulièrement

importants. Comme facteur primordial, les Premiers ministres sont convenus que la création d'emplois devrait venir, dans la plus grande mesure possible, des investissements commerciaux dans le secteur privé et ont pris un engagement connexe, à savoir, que l'augmentation des dépenses du gouvernement devrait rester inférieure au rythme moyen de croissance de la production réelle. Le lecteur trouvera ci-après un exposé d'engagements plus précis sous les rubriques susmentionnées.

### Le milieu des affaires

11. Dans ce contexte, les Premiers ministres se sont engagés à renvoyer la question des répercussions de la réglementation gouvernementale au Conseil économique pour fins d'étude et de recommandation de mesures à prendre. Un autre résultat important a été l'engagement de prendre des mesures conjointes pour relever les crédits d'impôt ou les stimulants à l'industrie aux fins de la recherche et du développement, l'augmentation des occasions d'emploi dans ces domaines et l'accroissement de la diffusion et de l'application de la technologie existante.

### La politique commerciale et industrielle

12. Il a été convenu d'encourager les Canadiens à acheter des produits fabriqués au Canada lorsque la qualité et le prix sont comparables à ceux des importations. Le consensus veut que le Canada continue de participer sans réserve aux négociations commerciales multilatérales, avec la pleine consultation des provinces, et qu'il faille intensifier les efforts en vue d'accroître les exportations. Les Premiers ministres ont convenus que les gouvernements devraient agir avec plus de célérité pour indiquer le genre d'aide à l'adaptation aux nouvelles ententes commerciales qui serait disponible. Enfin, ils se sont engagés à prendre des mesures en vue d'accroître la part du Canada dans la production et les investissements dans l'industrie automobile.



d'investissement de 300 grandes entreprises révèle une augmentation de 8% des investissements réels pour 1979, en comparaison de 1978. Cela laisse entrevoir une hausse totale de l'ordre de 3-5% des dépenses réelles des entreprises au chapitre des installations et de l'équipement au Canada, en comparaison d'environ 2% en 1978 et de 1,5% en 1977.

6. Les profits après impôts dans l'industrie manufacturière en 1977 ont été de 12% supérieurs au niveau enregistré en 1976. Ce pourcentage a continué de monter au cours du premier trimestre de 1978, soit d'un autre 8,1%. La progression des profits demeure toutefois inégale, les industries étroitement reliées au secteur des exportations, y compris les produits du bois, les produits forestiers, le papier et les produits assimilés, de même que les métaux primaires ont accusé l'augmentation la plus marquée dans les profits au cours du premier trimestre de 1978.

8. Les réalisations qui précèdent témoignent des progrès que l'industrie manufacturière a faits en 1977 et 1978 pour raffermir sa position et apporter une contribution plus sensible à la croissance économique soutenue au cours des années 1980. Il existe toutefois certains secteurs, par exemple le commerce et les investissements, où il reste encore beaucoup de place à de l'amélioration. L'incertitude au sujet de la conjoncture économique des Etats-Unis jette une ombre sur les perspectives canadiennes. Une politique soutenue s'impose donc. Le présent document, dans les rubriques qui suivent, examine de quelle manière les changements de politique du gouvernement ont contribué au raffermissement du secteur industriel et traite d'autres initiatives qui pourraient s'imposer à cet égard.

#### LES ENGAGEMENTS DES PREMIERS MINISTRES

9. Après avoir étudié la situation concurrentielle difficile de l'industrie manufacturière telle qu'elle était exposée dans le premier document sur le rendement de cette industrie, les Premiers ministres, lors de leur conférence fédérale-provinciale de février 1978, ont pris un certain nombre d'engagements destinés à améliorer les perspectives de l'industrie. Toute une gamme de politiques influe sur l'expansion industrielle. Les politiques macro-économiques touchent l'ensemble de la demande, des investissements et du rendement des prix. Les politiques-cadres, portant, entre autres choses, sur la fiscalité, le marché du travail, l'innovation et la technologie, la politique commerciale, les achats publics, la protection de l'environnement et d'autres règlements gouvernementaux, ont des répercussions sur la structure et le coût de l'activité industrielle. Les politiques

des États-Unis, laissent entrevoir que cette entreprise d'envergure ira de l'avant dans les années 1980, ce qui créera d'importants débouchés pour les fournisseurs de matériel et d'équipement aux fins de la construction de pipe-lines et d'activités connexes au cours de cette période.

7. Le secteur manufacturier a réagi de manière constructive à ces réalisations et son rendement s'est révélé dans un certain nombre de domaines.

1. Au cours du premier semestre de 1978, la hausse de production réelle dans l'industrie manufacturière s'est élevée à près de 6,6%, soit une augmentation de beaucoup supérieure à celle de l'ensemble de l'économie.

2. L'emploi dans l'industrie manufacturière a augmenté sensiblement. Au cours du premier semestre de 1978, il a connu une hausse de plus de 4% ou de 78 000 emplois, pour ainsi renverser la tendance des dernières années qui allait vers la réduction de l'emploi dans le secteur manufacturier. Toutefois, l'emploi n'a toujours pas regagné le terrain perdu depuis le sommet de 1974.

3. Les expéditions du secteur manufacturier ont augmenté à un taux annuel de 19% au cours du premier semestre de 1978, en comparaison de 12% en 1977, ce qui témoigne de la récente poussée de l'activité manufacturière. Ce raffermissement se manifeste également par le fait que les carnets de commande sont mieux garnis de près de 18%, alors que les stocks de produits finis n'ont que légèrement augmenté.

4. Les exportations canadiennes de produits industriels ont augmenté de près de 21% en 1977, et d'un autre 23% à des taux annuels au cours du premier semestre de 1978. Quant aux importations canadiennes de produits industriels, elles ont accusé une hausse de 13,9% en 1977 et un autre de 17% (taux annuel) au cours du premier semestre de 1978. C'est donc dire que le déficit commercial au chapitre des produits industriels est passé d'environ \$4 milliards en 1977 à quelque \$3 milliards, sur une base annuelle, au cours du premier semestre de 1978.

5. Le taux d'utilisation de la capacité dans l'industrie manufacturière est resté le même en 1976 et 1977, soit environ 84%, et ce n'est que tout récemment qu'il a commencé à augmenter. Malgré cette capacité excédentaire, notre récent relevé des intentions

PNB a progressé de 2,7% en 1977 par rapport à 1976. Au cours du premier semestre de 1978, le rendement réel a augmenté de 4%, soit à un rythme de beaucoup supérieur à celui de la moyenne de l'OCDE, ne cédant le pas qu'au rythme de croissance du Japon. La croissance de l'économie est principalement attribuable à la fermeté soutenue des exportations de marchandises.

4. La fermeté du rendement des exportations canadiennes provient en partie de la dévaluation marquée du dollar canadien qui est survenue de 1976 et de la vigueur de l'économie américaine. Le dollar canadien a baissé de 14% par rapport au dollar japonais et de plus de 25% par rapport à d'autres grandes devises européennes.

5. La position concurrentielle des fabricants canadiens s'est également raffermie par la retenue relative des règlements salariaux qui sont intervenus depuis deux ans. Au cours du premier semestre de 1978, les règlements salariaux dans le cas d'entreprises comptant 500 employés ou plus ont accusé une hausse de 6,5% en comparaison d'augmentations de 10,2% et de 7,8% en 1976 et 1977, respectivement. Les règlements salariaux dans l'industrie manufacturière au Canada comprenaient des augmentations, pour la période d'application de la convention collective, de 6,5% pour le premier semestre de 1978, après des hausses de 8,8% et de 7,0% en 1976 et 1977. Compte tenu de l'accroissement de la productivité, les taux unitaires de main-d'œuvre ont augmenté de 3,2% pour l'ensemble de l'économie au cours du premier semestre de 1978 et de 0,6% pour l'industrie manufacturière, soit un rendement fort respectable d'après les normes internationales. Exprimés en devises américaines, les coûts unitaires de main-d'œuvre ont, de fait, diminué cette année. Le climat des relations du travail -- et c'est là une réalisation connexe -- s'est manifesté assez assaini en 1977 et 1978, car le nombre total de jours-hommes perdus à la suite de différends industriels est passé de près de 12 millions en 1976 à moins de 4 millions en 1977. Ce total sera sensiblement plus élevé en 1978, mais il restera considérablement inférieur à ceux de 1975 et de 1976.

6. Pour ce qui est de la situation de l'énergie, les activités d'exploration et de mise en valeur au Canada ont donné des résultats plus optimistes au cours de la plus récente période, avec la découverte d'importants gisements de pétrole, l'expansion des réserves estimatives de gaz et la découverte d'importants gisements d'uranium. Ces réalisations ont, dans une certaine mesure apaisé les craintes au sujet de la sécurité d'approvisionnement énergétique au Canada et ont rendu le Canada plus attractif au chapitre des investissements internationaux. La signature de l'accord canado-américain sur le pipe-line Alcan, en 1977, ainsi que la récente approbation du projet par le Congrès



## QUESTIONS RELATIVES À L'EXPANSION INDUSTRIELLE

1. L'apport du secteur industriel à la croissance de l'économie canadienne au cours de l'après-guerre a fait l'objet d'un document qui a été rendu public lors de la Conférence fédérale-provinciale des ministres de l'Industrie à l'automne 1977. Le document révélait que le secteur manufacturier avait prospéré au cours des années 1950 et 1960 et avait sensiblement contribué à la hausse des revenus et de l'emploi au Canada. Toutefois, certains événements qui se sont produits aux paliers national et international au cours des années 1970 remettent en question ces perspectives. La portée générale du document de 1977 reste valable mais il est survenu depuis, dans les milieux économiques et politiques, un certain nombre de changements qui laissent entrevoir la nécessité d'un réexamen et d'une réorientation. De fait, certains de ces changements sont devenus manifestes au cours de l'exercice de consultation auquel se rattachait le document. Le présent document examine donc le rendement récent de l'industrie manufacturière dans l'optique de la conjoncture politique et économique actuelle, aborde brièvement quelques-unes des mesures en matière de politique prises depuis un an et traite d'un certain nombre de questions d'actualité, en ceignant d'autres secteurs où il pourrait y avoir lieu d'adopter des politiques.

## SITUATION ÉCONOMIQUE ET PERSPECTIVES D'AVENIR

2. Le document de 1977 attribuait la récente faiblesse du rendement de l'industrie à divers facteurs, par exemple, une détérioration marquée de la structure des coûts au Canada, un plus grand souci de leurs propres intérêts manifesté par les États-Unis dans leur politique économique, l'épanouissement du Japon et des pays européens en pays industrialisés à part entière, l'industrialisation rapide des pays en voie de développement, le peu d'effort de l'industrie canadienne en matière de recherche et de développement, ainsi que la grande incertitude politique qui règne au Canada depuis quelques années. Ces inquiétudes se sont manifestées par une baisse de l'emploi dans l'industrie manufacturière, un rendement douteux des profits et des investissements, de faibles niveaux d'utilisation de la capacité et un déficit commercial sans cesse croissant dans les produits industriels, particulièrement les produits finis.

3. La plupart de ces inquiétudes restent tout à fait réelles, mais il s'est récemment produit un certain nombre d'événements qui, pris dans leur ensemble, laissent entrevoir des perspectives un peu plus optimistes. L'économie canadienne a connu un rétablissement léger mais raisonnablement soutenu au cours des dix-huit derniers mois, à la suite d'un ralentissement marqué au cours du second trimestre de 1976. En termes réels, le





Document de travail

**Conférence  
des premiers ministres  
sur l'économie**

Du 27 au 29 novembre 1978

**Questions relatives à l'expansion  
industrielle**

Ministère de l'Industrie et du Commerce



Discussion Paper

First Ministers' Conference  
on the Economy

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Industrial Adjustment Policies

Department of Industry Trade and Commerce

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## INDUSTRIAL ADJUSTMENT POLICIES

### I INTRODUCTION

1. The government has committed itself to a re-ordering of priorities with new emphasis given to measures to strengthen and promote economic development. These measures will include selective capital investment projects and initiatives to encourage development in specific sectors as well as the government's response to the reports of the consultative task forces with particular attention to horizontal and framework policies and the business environment. In addition, attention is being focussed upon the requirements for industrial adjustment in the competitive international environment of the 1980's.

2. Industrial adjustment involves the provision of support to business firms to facilitate modernization and reorganization of existing production facilities, the shift into new product lines, and the identification and exploitation of new market opportunities. On the labour and manpower side, it means assistance with retraining, job search and relocation to support affected workers in finding new employment opportunities, and in some hardship cases the provision of income maintenance over and above that available from unemployment insurance.

3. Key federal departments involved in providing adjustment assistance to firms and workers are the Department of Industry, Trade and Commerce, Labour Canada, and the Canada Employment and Immigration Commission. In addition, the Department of Regional Economic Expansion provides substantive industrial support in carrying out its mandate to improve the regional balance. Each of these departments already has programs which in their present form provide useful elements of an industrial adjustment package. An extensive assessment of the adequacy of these programs to deal with the competitive pressures of the 1980's has been undertaken and as a result certain improvements have been made in some programs and in some cases new program approaches are being initiated. These program changes will significantly enhance the ability of the federal government to support firms and workers in meeting the competitive challenges in the 1980's.

4. In the context of its 1979/80 employment strategy, the Canada Employment and Immigration Commission has made changes aimed at providing more assistance for workers relocating in areas of employment

opportunities, more funds for training workers, especially in higher skilled blue collar categories, and extra assistance for workers seriously affected by major dislocations of employment in their communities. The additional amount allocated to these new initiatives in 1979/80 totals almost \$100 million. Improvements in Industry, Trade and Commerce industrial incentives programs for business firms will involve increased direct cash outlays of about \$25 million in 1979/80, rising to over double this amount in subsequent years. Increased outlays for industrial adjustment by Employment and Immigration and Industry, Trade and Commerce in 1979/80 therefore will amount to around \$125 million. The actual additional program support available under these changes will however be far greater than this because of the leverage inherent in loan guarantee and insurance instruments which do not draw directly on the treasury. Support from IT&C programs which makes heavy use of these insurance and guarantee mechanisms is expected to reach \$100, \$270 and \$300 million in 1979/80, 1980/81 and 1981/82, respectively. Labour Canada is broadening the coverage of its programs with estimates of increased total funding during the 1980's of \$5 - \$10 million annually. Also the Department of Regional Economic Expansion will be channelling an additional \$50 million into subsidiary agreement expenditures aimed at promoting economic development, facilitating adjustment and, where indicated, providing infrastructure support for those sectors expected to benefit from the post-MTN environment. These program changes, which are discussed in greater detail below, constitute a comprehensive package of initiatives to handle industrial adjustment problems and opportunities in the 1980's.

## **II INDUSTRIAL SITUATION AND OUTLOOK**

5. Growth and change in the industrial structure have always been a highly desirable feature of Canadian economic development. Primary reliance has been placed on private initiative to undertake the investment and other operational decisions necessary for the industrial sector to grow and to restructure its activities in line with changing market demands and opportunities, and with competitive pressures. Governments have participated in the process through a wide range of policies and programs. Some of these are broad in scope and are designed to establish and influence the economic environment in which growth and change take place. Others deal with specific problems encountered in industrial development, and in general are aimed at removing obstacles to the full working of market forces, modifying the results, and avoiding or alleviating disruptions that are the inevitable result of any dynamic process.

6. A range of current and expected competitive and demographic pressures are affecting the prospects and policy needs of Canadian industry. A competitive factor of major concern to the business community is the MTN, the results of which are expected to be phased in during the 1980's. Although the precise outcome of the MTN is unknown at this time, it is most likely that these negotiations will result in a significant tariff reduction with improved trading rules coupled with the reduction of and better control over non-tariff barriers and trade. While the results of the MTN will provide Canadian industry with improved access to foreign markets, some firms have questioned their ability to make the necessary competitive adjustments, given prevailing, weak economic conditions.

7. The MTN is but one of a number of major changes in the competitive environment facing Canadian firms. Other developments, which may be of even greater consequence include:

- (a) the present world situation of slow demand growth, extensive underutilized capacity, upward cost and price pressures and fierce competition for available markets - which will not be entirely overcome for at least several years,
- (b) the industrialization aspirations of LDC's, affecting particularly such products as textiles, clothing, footwear, electronic components and sporting goods,
- (c) the efforts by the United States to improve its balance of payments position,
- (d) the shifting of comparative advantage among and within countries because of sharp relative price increases for energy and some other resources,
- (e) the development of new resource bases throughout the world including extended fishing limits and sea-bed mining,
- (f) slowing population growth and changes in the age composition of the total which affect the overall growth of consumption and relative levels of demand for many products,



- (g) related changes in the size and composition of the labour force which could influence labour/capital ratios.

8. These pressures imply opportunities as well as problems for Canadian businesses. Their ability to accomplish these adjustments will be enhanced by the recent realignment of foreign exchange values which have significantly improved Canadian relative cost performance vis-à-vis other nations. However, the reduced competitive pressures resulting from exchange rate depreciation must not be taken by domestic producers as a signal that adjustment towards an economic configuration which can be sustained into the longer-term is no longer required. Enterprising firms will adjust their product line or marketing effort to serve a different age group in Canada, to tap the growing incomes of LDC's or to penetrate other external markets opened up by trade changes. There will be considerable scope for profitable business in energy development, transmission and conservation. Exploitation of our broadened fishing grounds is expected to greatly increase processing and employment opportunities in the coastal areas.

9. For most of these restructuring situations, it is likely that demand and profit prospects will be sufficient to ensure that the opportunities are seized. In some cases, however, this may not be the case. Some firms, for example, may lack the finances or management expertise necessary to re-equip a plant, or to build up a sales organization in an unfamiliar market. Canadian plants within multinational corporations may be inhibited by corporate global strategies. In these and similar situations it may be appropriate for government to take a hand.

10. Admittedly there will also be situations, generally reflecting the continuation of long-term trends, which can only be regarded as difficult or even negative. In general, these will tend to be concentrated in particular sectors currently facing strong import competition, such as textiles, clothing, footwear, consumer electrical products and parts of the metal fabricating industries. In addition, a significant portion of the resource processing industries - wood and paper products, primary metals and non-metallic mineral products - require extensive modernization and rationalization to remain competitive in the anticipated environment of the 1980's. The need for rationalization is also evident in a number of other industries such as furniture and shipbuilding.

11. In these situations, the outcome is likely to be plant closures and a loss of employment, either out of an inability to survive or as part of a corporate rationalization. As noted earlier, such curtailments are an essential part of the economic process, and are to



be welcomed when the displaced resources can be readily transferred to alternative employment. The difficulty confronting us at this time is that easy re-allocation is by no means assured because of slack in the global and Canadian economies.

12. The geographic dimension of industrial adjustment may involve particularly difficult problems as some plant closures are likely to occur in communities with a limited industrial base. The textiles, clothing and primary metals industries are concentrated in particular communities in particular regions, and the shutdowns or curtailments could threaten the economic health of the entire area. Moreover, barriers of cost, language, and skills imply higher economic and social costs for displaced workers to move to other geographical locations or other occupations. Finally, and of particular relevance to the medium-term, much of the adjustment will take place against the background of long-run and apparently durable trends which indicate a continuing westward shift in opportunities and economic activity in the country.

13. It is tempting in such situations to try to forestall the need for adjustment and its immediate disruptions by policies of protection or subsidy. While such defensive tactics may at times be justifiable in order to phase the adjustment and permit more positive responses to develop and mature, they cannot be regarded as a permanent solution. Experience has shown that basically non-competitive activities require an ever-increasing battery of protection or subsidy, workers and capital are locked into income generating situations which at best are marginal and new labour and capital may be drawn in, and more efficient activities are drained because, in the final analysis, it is they that must bear the cost of artificial support.

14. It is worth repeating that Canada has experienced and benefitted from massive structural change throughout the course of its history, and in many cases the restructuring has been promoted by governments. The Canada-U.S. Defence Sharing Agreement and the Auto Pact, for instance, led to extensive rationalization, improved competitive performance and growing relative importance for the industrial sectors affected. New manufacturing and service employment developed to accommodate the transfer of rural workers as agricultural productivity increased sharply. The ability to achieve and sustain a dynamic process of industrial growth and change has been a key contributor to the dramatic increases that have taken place in Canadian employment, output and living standards over the course of the years, and it is of vital importance that government policies be fully supportive of this process as the economy moves into the challenging competitive conditions of the 1980's.

### III INDUSTRIAL DEVELOPMENT POLICY INITIATIVES

15. A vast array of policy and program elements influence industrial development. Industrial adjustment is but one aspect of industrial development policy. Other elements include macro-economic policies which affect aggregate demand and investment while, at the same time, work to reduce inflationary pressure. To this end, the Department of Finance put forward medium-term targets in the fall of 1977 and is currently re-examining Canada's economic potential in the 1980's. A broad range of framework policies exert a significant impact on the structure and cost of industrial operations. A considerable body of work aimed at making these policies more supportive of industrial development is underway in connection with the sector task forces, in the Economic Council and in other fora. Important framework policies include taxation, labour market policies, innovation and technology, trade policies, environmental protection measures, public procurement policies, competition policy, other government regulations, transportation policy, and small business policy. Resource policies in such areas as energy, minerals, forestry, fishing and agriculture are aimed at achieving efficient resource extraction, management and conservation. Regional policies, and variations within demand management, framework and sectoral policies build on regional strengths or deal with regional constraints.

16. An ambitious series of consultations involving business, labour and government was launched by the First Ministers in February 1978 with the formation of twenty-three industry task forces which, in total, represented much of the manufacturing sector as well as the construction and tourism industries. The reports of these task forces were reviewed by a "second-tier" committee to identify the common issues and areas of concern and to discern the broad policy implications. The report of the "Tier II" committee has now been released. This committee put forward recommendations relating to most of the major "framework" policy areas including trade and the MTN, manpower and labour relations, taxation, research and development, energy, transportation, regional development, government procurement and rationalization. Federal and provincial governments have undertaken to respond in a positive and meaningful way to these recommendations and are presently developing the measures required to do so.

17. Even though the macro-economic and framework policies cited above may be appropriately deployed, there remains a need for special measures required to help firms and workers adapt to changing competitive conditions, particularly when structural or institutional factors inhibit the market adjustment process, or when the burden of adjustment falls unevenly upon certain workers, industrial sectors,

regions and communities. The remainder of this paper considers these policies of industrial adjustment. For purposes of discussion, they are categorized into labour market programs, programs for business firms, regional programs and transitional support measures. A major concern is the coordination of these various program elements into a comprehensive adjustment package.

#### IV LABOUR MARKET ADJUSTMENT PROGRAMS

##### A. Existing Programs

18. Labour market programs are used to upgrade the skills of workers; increase geographic and occupational mobility; provide temporary income support; overcome labour shortages and bottlenecks; and in some cases generate direct employment. Immigration policy assists the adjustment process by allowing the entry of immigrants who satisfy skill requirements which cannot be met by Canadians. Given the current high levels of unemployment, training and mobility of Canadian residents will be given priority over immigration. Programs administered by the Canada Employment and Immigration Commission and Labour Canada have been instrumental in facilitating adjustments and development of the labour market in the past, and this role is expected to continue in the future. Table I summarizes expenditures under labour market programs in fiscal 1977-78. The Adjustment Assistance Benefits for textiles, clothing and footwear workers are administered by Labour Canada, while the other programs are administered by the Canada Employment and Immigration Commission. Total expenditures under these programs amounted to some \$1.0 billion in 1977-78.

TABLE I  
Selected Labour Market Program Statistics<sup>1</sup>

	<u>Fiscal 1977-78</u>	
	<u>Expenditures</u> <u>(\$ millions)</u>	<u>Labour Force</u> <u>Participants</u> <u>(thousands)</u>
Manpower Consultative Services (MCS)	2.2	335.3
Employment Service	123.7	4,525.4
Canada Manpower Training Program	494.8	233.0
Canadian Manpower Industrial Training Program	76.5	63.5
Canada Manpower Mobility Program	10.0	44.7



TABLE I (cont'd)

	Expenditures (\$ millions)	Labour Force Participants (thousands)
Immigration Program	61.2	204.0 <sup>2</sup>
Job Creation <sup>3</sup>	293.3	71.7
Employment Tax Credit Program	100.0 <sup>4</sup>	50.0
Textiles & Clothing AAB Program <sup>5</sup>	2.1	0.4
Footwear & Tanning Industrial Adjustment Program	--	n/a
Developmental Use of Unemployment Insurance Funds	159.0 <sup>4</sup>	n/a
Total	<u>1,063.8</u>	

- 1 Preliminary data
- 2 1977; includes 89,084 entering on employment visas
- 3 Canada Works and Local Employment Assistance Program only
- 4 Fiscal 1978-79
- 5 Annual average since introduction of Program

Source: Canada Employment and Immigration Commission, Labour Canada.

19. A comprehensive unemployment insurance program, with federal expenditures of close to \$1.8 billion in 1977, provides financial support for individuals during periods of temporary unemployment, enabling them to seek employment consistent with the skills they possess. Most adjustments on the labour side take place with no government intervention other than through unemployment insurance (UI). In order to improve its effectiveness as a means whereby individuals can seek permanent employment, various developmental uses of UI have been introduced. For example, work sharing has been introduced in 21 pilot projects, with employees working shorter hours and having their wage supplemented by partial UI benefits. Another approach has been to use UI benefit entitlements to cover the costs of allowances for those in institutional training, with the savings from this available to provide additional training. This latter aspect is expected to be in the order of \$100 million in 1978-79. The utilization of UI funds in support of industrial training is an area currently being explored. The use of UI funds in support of job creation will be implemented on a pilot project basis this fall with a maximum of one project per province. A model for UI funded job experience training (JET) for young unemployed workers has been developed and included as part of the 1979/80 Employment Strategy. Up to \$40 million would be made available for the UI income maintenance portion.



## **B. Opportunities for Program Improvement**

20. Together, these labour market adjustment programs constitute a comprehensive array of instruments which compares favourably with programs available in other industrialized countries. Nevertheless, in view of the extremely dynamic nature of the Canadian labour market, and the intense competitive pressures anticipated in the 1980's, there is a need to strengthen labour market programs in the following areas:

### **(a) Manpower Mobility**

There will be a number of specific geographic areas affected by strong competitive pressures in the 80's. In some cases, employment replacement opportunities will not evolve in these areas and the industrial adjustment process will therefore require measures to assist workers and their families in relocating to areas where the demand for labour is greater.

### **(b) Training**

A critical labour market implication of industrial adjustment will be anticipated strong growth in sectors which rely relatively heavily on high level blue collar skills. This will clearly result in additional training requirements for such skills, especially in certain critical trades which have remained in relatively short supply even during periods of high unemployment. Emphasis on the development of employer-centred training programs to provide these skills is a central area for improvement, particularly for trades which have relied on immigrants as a major source of trained labour in the past. In addition there will be a need to provide training for workers whose skills become obsolete because of more rapidly changing patterns of production.

### **(c) Emergency Support Measures**

Plant shutdowns and sharp employment cutbacks will occur in some industries. These cases can result in permanent loss of jobs and

income for older and less mobile workers, who may require income support on a more permanent basis than is offered by UIC, or special measures to assist in finding new employment.

### **C. New Program Initiatives**

21. Bearing the above considerations in mind, the Canada Employment and Immigration Commission has incorporated a number of major program changes in its Employment Strategy. These include the following elements:

- (a) The budget for the Manpower Mobility Program is being increased, to incorporate into the program a "strategic" component which can be used to assist workers' relocation in specific instances of employment expansion or dislocation. This change is expected to increase significantly the program's flexibility, and will thus greatly enhance its capacity to facilitate the extensive labour market adjustments anticipated in the 1980's.
- (b) The training programs are being reoriented to place much greater emphasis on skill training and training within industry to meet the needs of industrial development. For 1979-80, an additional \$70 million has been allocated to provide skill training to meet industrial needs. Twenty million dollars of the incremental amount will be utilized for the development, with the provinces, business and industry of a Critical Trade Skill Shortages Program. Further, the 1979-80 Employment Strategy will provide an additional \$20 million for the regular Canada Manpower Industrial Training Program. The funds will be provided to business firms to cover a portion of their costs of further necessary expansion of skill training. The Canada Manpower Training Program will receive \$30 million more in 1979-80, the additional funds to be used exclusively to provide institutional training and necessary allowances for skill training to meet industrial needs.

- (c) The budget for the Manpower Consultative Service is being increased by \$2 million in 1978-79. This Service is CEIC's principal instrument for encouraging employers and their employees to work together to solve manpower adjustment problems created by economic, technological or other changes in particular enterprises or industries. It acts as a catalyst between the two parties to facilitate the movement of dislocated workers into training and to jobs and locations where they are needed.
- (d) The Local Economic Development Assistance Program is being developed as a new initiative designed to stimulate and assist local private sector employment and small business development, and to stimulate community participation in, and responsibility for, that process.
- (e) A Special Response Feature has been introduced which has the authority to approve Canada Works projects outside the normal application process as well as, where necessary, supplementing other relevant Commission programs where a dislocation has occurred in the local labour market as a result of a natural disaster or unexpected shutdown of a major employer in a small community, excluding those resulting from labour disputes. Although by its nature, there is no way of telling exactly what demands for this funding will be, \$5 million has been set aside in 1979/80.
- (f) Work is proceeding on the development of a program of portable wage subsidies to improve the employability of some dislocated workers, including those laid off as a result of trade-related adjustments.

22. With respect to its programs for older textiles, clothing, and footwear workers, Labour Canada is proceeding to:

- (a) modify the benefit eligibility criteria for footwear and tanning workers to focus upon the impact of import competition.

- (b) set up a new umbrella program for import injured sectors under which assistance benefits would be made available to workers outside the sectors now covered.
- (c) establish a mechanism whereby certification is performed by product line rather than by firm.

23. These modifications by Labour Canada are expected to raise the funding requirement by an average annual level of \$5 to \$10 million, depending upon the outcome of the MTN, general economic conditions, and the degree of extension to product lines in additional sectors.

## **V PROGRAMS FOR BUSINESS FIRMS**

### **A. Existing Programs**

24. Program support for business firms is generally aimed at improving knowledge and providing commercial intelligence; strengthening the financial condition of business; encouraging research and innovation; facilitating rationalization and restructuring; identifying and developing new market opportunities; and reducing risks. Program activity of this type is usually oriented towards small and medium sized firms, where experience has shown there is a greater need.

25. There are a number of government departments and agencies involved in providing program support for industrial business firms. These activities are summarized in Table II. The total amount of support available to firms totalled some \$3.6 billion in 1977-78. Of this amount, over 100 million falls under RDIA assistance which is discussed in more detail in the following section on Regional Programs. It is noted that the export financing activities of the Export Development Corporation, and the support provided to medium and small firms provided by the FBDB, loom large in this total. The financial assistance includes various forms of grants, direct loans, and loan guarantees. It should be noted that the total does not all represent funds actually paid out by the government. For example, about \$1.5 billion of the EDC support and \$106 million of EDP assistance is contingent liabilities in the form of export credits insurance and loan guarantees.



TABLE II

Assistance Available to Business Firms, 1977-78

	<u>No. of Projects</u>	<u>Amount Authorized (\$million)</u>
EDP innovation	181	18.8
adjustment	84	106.4
Consulting	90	1.2
Promotional Projects Program	250	4.1
PEMD	962	11.5
DIPP	80	64.7
Shipbuilding - SIAP	24	21.1
FBDB	9,977	491.0
SBLA <sup>2</sup>	5,236	90.8
EDC <sup>2</sup>		
export loans	46	1,182.4
export credits insurance <sup>1</sup>		1,445.9
foreign investment guarantees <sup>1</sup>	19	62.6
RDIA	625	102.0
Total	17,574	3,602.5 <sup>4</sup>

1 These amounts represent the amount of exports and investment insured by the government during 1977, rather than funds paid out.

2 1977 Calendar year.

3 Average annual expenditures since the inception of the programs.

4 In addition, the Machinery Program made some \$200 million available to the industry through duty remissions in 1977/78.

Note: Abbreviations are as follows: EDP - Enterprise Development Program, PEMD - Program for Export Market Development, DIPP - Defense Industry Productivity Program, SIAP - Shipbuilding Industry Assistance Program, FBDB - Federal Business Development Bank, SBLA - Small Business Loans Act, EDC - Export Development Corporation, FTIAP - Footwear and Tanning Industries Assistance Program.

### B. Opportunities for Program Improvement

26. With respect to programs for business firms, the concern of the following sections of this paper is to report on identified opportunities for improvement in the industrial support and export promotion programs under the direct jurisdiction of the Department of Industry, Trade and Commerce. It is considered that changes in the following areas would be beneficial in view of the intensifying competitive conditions expected in the 1980's.

- (a) Financing - To ensure that smaller and medium sized firms will have adequate term financing to make the adjustments required to meet competitive pressures in the 1980's, an increase in the amount of program support available will be required. In addition, more funding will be needed in support of innovation and product development to assist companies in moving into new products and markets where the payoff may not be immediate.
- (b) Structural Change - A solution to some competitive problems will be mergers and acquisitions between strong and weak firms, which could in some cases be an alternative to the costly and inefficient bankruptcy process for failing businesses. The present program structure does not provide an effective mechanism for facilitating such arrangements.
- (c) Market Development - Many smaller and medium sized Canadian firms have little or no experience in export marketing, or indeed in identifying more distant market opportunities in Canada. Further, they are in many cases too small to handle the large risks involved. As competitive pressures intensify in the 1980's, many firms will require increased assistance in identification of new markets for their products, and assistance in mounting a sustained effort to exploit these markets. A particular effort is required to strengthen export promotion efforts to the United States.
- (d) Management Services - Increasing effort is required to upgrade the management capability of smaller and medium sized firms.
- (e) MTN Impact - Businessmen and labour are concerned about the possible impact on their firms of tariff and non-tariff barrier reductions which are likely to be phased in during the 1980's resulting from the MTN. A package of measures to support firms in exploiting new export opportunities and help them restructure their operations and switch product line in the face of new domestic

market competition would demonstrate the government's support of industry and help to restore confidence in the economy.

### C. New Program Initiatives

27. In view of these considerations, a number of important changes have been announced in the present Department of Industry, Trade and Commerce program framework. The implementation of these and other changes will require additional consultation with the provinces and the private sector.

- (a) To ensure that adequate term debt is available to small and medium sized firms to facilitate adjustments required to take advantage of changing competitive conditions, the EDP loan guarantee ceiling will be increased from \$350 million to \$1 billion.
- (b) To encourage industries to undertake high risk research, design, and development, and to assist smaller and medium sized firms establish an R&D capability, the government will increase the innovation budget of the Enterprise Development Program from its present \$25 million to \$60 million annually. The EDP cost sharing ratio will be changed to 75% of direct costs.
- (c) To overcome problems of fragmentation and small scale, and facilitate industry restructuring and mergers between strong and weak firms, \$20 million per annum will be made available for 100% loan guarantees to forestall bankruptcy until viable take-overs of failing firms can be arranged, co-insurance agreements will be initiated to support such arrangements under the \$1 billion loan guarantee ceiling outlined above, and \$4 million will be made available annually for consulting studies to promote mergers.
- (d) To finance viable restructuring proposals for manufacturers injured or likely to be injured as a result of changing international trade patterns, a new 100% loan insurance facility

will be established providing \$20 million of insurance per year. In addition \$5 million annually will be available for direct loans to firms that cannot find alternate financing. Funds will also be provided for consulting assistance.

- (e) To assist smaller and medium sized firms in exploiting marketing opportunities in the United States, the Program for Export Market Development will be expanded to include market exploration in the United States. The program's funding limits will be increased by \$2.5 million annually. In addition, PEMD will be further expanded by \$5 million per year to provide for increased export market development on a sustained basis.
- (f) To offset the risks involved in undertaking major capital and turnkey projects in overseas markets, the government will continue its efforts to make \$100 million of re-insurance available to provide export risk insurance to Canadian firms, through the private insurance industry.
- (g) To introduce a broader range of Canadian products into export markets, a number of unique promotional projects will be undertaken in association with certain trade fairs and missions, at an estimated cost of about \$2 million annually.
- (h) To strengthen the management capability of many smaller and medium sized firms the budget for the management services component under the Federal Business Development Bank will be increased by some \$2.4 million annually. Also, a nation wide series of private sector consulting councils will be established, where big firms can provide expertise and advice to smaller firms. Further, business service industries which invest in intellectual assets will be considered for EDP innovation and adjustment assistance on the same basis as goods producing industries.



- (i) To ensure ready access to federal adjustment assistance by companies affected by the MTN, and to support firms in taking advantage of MTN related opportunities, an MTN Panel will be created as a specialized committee of the Enterprise Development Board. The Panel will make grants, direct loans and loan guarantees available under the EDP for adjustment projects.
- (j) To determine the adequacy of the existing array of IT&C export promotion programs and activities and to identify means whereby new export opportunities may be seized, a private sector review committee has been established. This committee, which is to report by June 30, 1979, has been given the strong support of governments and the commitment of the Minister of Industry, Trade and Commerce to positively respond to the recommendations.

## VI REGIONAL PROGRAMS

28. The main thrust of regional programs are to identify potential development prospects, facilitate the realization of development opportunities, and directly encourage job creation and capital investment in disadvantaged regions. In support of the regional development objective, the programs of the Department of Regional Economic Expansion (DREE) have sometimes assisted firms in order to preserve existing jobs, although these programs are primarily directed to the opportunity aspect of industrial development. Nevertheless, attention is drawn to the fact that the orientation of these programs is increasingly being directed to the opportunity aspect of industrial development.

29. There are two main regional policy instruments of direct relevance to industrial development; namely the General Development Agreements (GDA's) and the Regional Development Incentives Program (RDIP). In 1977/78 these two programs respectively accounted for 57 per cent and 13 per cent of DREE expenditures. The GDA's provide a forum for coordinated federal/provincial action in identifying and promoting industrial development opportunities. The main objectives of the RDIP are to stimulate and preserve production and employment opportunities in regions designated to require direct federal assistance and to facilitate the implementation of selected opportunities identified under the GDA's. In 1977/78 the number of net accepted offers under the incentive program was 625, involving authorized capital costs of \$477 million and commitments by DREE of \$102 million.

## VII TRANSITIONAL SUPPORT MEASURES

30. The positive steps described above will facilitate and encourage private sector initiatives to enhance its efficiency and competitiveness in world markets. However, transitional support measures may be necessary in certain instances to ease undue competitive pressures, mitigate unfair competition and facilitate the implementation of necessary adjustments. In this context, a variety of trade policy instruments are available which can be employed, in accordance with Canada's international rights and obligations. These include emergency safeguard action, anti-dumping and countervail duties, renegotiation of tariff concessions, and safeguards in the context of the General Preferential Tariff. In respect of these measures, the Government has reiterated its intention to improve, wherever possible, the procedures for taking action as promptly as possible where such measures are warranted. In addition, in order to accommodate adjustment to the changed competitive environment in export and domestic markets which will result from the MTN, Canada will avail itself of the provision for phasing-in tariff reductions during the 1980's and, in certain cases, partial or full exceptions will be made from the formula tariff cuts.

## VIII THE NEED FOR COORDINATION

31. The variety and diversity of programs and policies discussed above underlines the need for a coordinated approach. There is a need for coordination of program criteria to ensure that a consistent set of objectives is being pursued rather than having efforts dissipated through programs operating at cross-purposes. There is also a need for coordination in program management to minimize the administrative difficulties encountered by firms in requesting adjustment assistance, to avoid program overlap within and between political jurisdictions and to prevent requests for assistance from "falling between two stools". Finally, since many initiatives are undertaken in close collaboration with provincial governments and since the provinces offer a wide range of direct measures of assistance, the requirement that federal initiatives not duplicate existing provincial activities nor overly complicate federal-provincial arrangements, is of central importance. The industrially oriented subsidiary agreements under the General Development Agreements between DREE and the Provinces, have been effective instruments in this regard.

32. The process of coordination of federal initiatives will involve the programs of Industry, Trade and Commerce, Labour Canada, the CEIC and DREE. These initiatives, in turn, will have to be co-ordinated

with the relevant provincial programs. As indicated above, each of these departments already has an array of programs which, while designed to meet specific departmental objectives, can be used in a co-ordinated manner as elements of an industrial development strategy. Further work is required by these federal departments and the provinces to develop better mechanisms of program coordination and delivery.

## IX CONCLUSION

33. Taken together, the program measures and policy initiatives outlined above for firms and workers, with the appropriate deployment of transitional support measures, constitute a comprehensive package of initiatives to handle adjustment problems and opportunities in the 1980's. Table III summarizes the additional funding allocated to these areas in fiscal 1979/80. As can be seen from this table, new funding for 1979/80 amounts to almost \$125 million, almost \$100 million for labour market adjustments and \$25 million for business firms.

TABLE III

<u>Program</u>	<u>Additional Cash Disbursement, 1979/80 \$ millions</u>	<u>Additional Program Authorizations 79/80 \$ millions</u>
<u>Labour Market Programs</u>		
Manpower Mobility Program	2.5	2.5
Manpower Consultative Service	2.0	2.0
Portable Wage Subsidies	10.0	10.0
Special Response Feature	5.0	5.0
Local Economic Development Assistance	10.0	10.0
Skill Training	70.0	70.0
	<hr/>	<hr/>
Total Labour Market Programs	99.5	99.5
<u>Programs for Business Firms</u>		
Financing Adjustment: Restructuring to meet new opportunities and MTN injury	3.5	6.0

TABLE III (cont'd)

<u>Program</u>	<u>Additional Cash Disbursement, 1979/80 \$ millions</u>	<u>Additional Program Authorizations 79/80 \$ millions</u>
Structural Problems		
- fragmentation, scale	2.0	6.0
Innovation		
- shared cost projects	12.0	25.0
EDP Product Research		
Incentives	1.0	3.0
Market Development		
- PEMD to U.S.A.	0.5	1.0
- Promotional Projects	2.1	2.1
- Risk Sharing on Major Overseas Projects	0.0	50.0
- PEMD Foreign Sales Offices, etc.	1.0	3.0
FBDB Business Management Services	2.4	2.4
Business Councils to Provide Consulting Assistance to Small Manufacturers	0.1	0.1
Total Programs for Business Firms	24.6	98.6
Total Adjustment Program	<u>\$124.1</u>	<u>198.1</u>

34. The \$25 million for business firms in 1979/80 means new program support of almost \$100 million in this year because of leverage associated with the use of loan guarantees and insurance mechanisms and time lags with respect to actual cash payments. It is estimated that new program proposals for business firms will result in annual cash disbursements of around \$100 million annually in the 1980's. This level of funding will accommodate new program activity in excess of \$300 million per year.

35. In addition, the changes proposed by Labour Canada with respect to its programs for textiles, clothing and footwear workers could mean cumulative increased program support of some \$5-10 million



annually in the 1980's. Further funding that could be required to address the geographic dimension of industrial adjustment should be available from DREE.

36. It must be emphasized, however, that these programs with the proposed changes operate at the margin. Although the funding available under the regular programs is extensive, it should be remembered that none of these programs is a substitute for fiscal and monetary policies effectively deployed to get the economy operating near potential, or framework policies consistent with efficient and competitive industrial activity conducive to the pursuit of other objectives. The government responses to the recommendations of the 23 industry sector consultative task forces and the second tier committee will result in further important initiatives which will improve the policy framework and supplement these proposals.









de près de 100 millions de dollars pour cette année à cause des fonds d'accroissement associés à l'utilisation de garanties sur les prêts et d'un mécanisme d'assurance, à cause aussi des délais qui marquent les paiements effectifs en espèces. On pense que les nouveaux programmes proposés qui intéressent les entreprises impliqueront des déboursés annuels de quelque 100 millions de dollars au cours des années quatre-vingt. Ce niveau de financement va comporter l'activité nouvelle des programmes à raison de plus de 300 millions de dollars par année.

35. En outre, les changements proposés par Travail Canada à l'égard de ses programmes qui intéressent les travailleurs du textile, du vêtement et de la chaussure pourraient entraîner, au total, l'accroissement du soutien des programmes à raison de 5 à 10 millions de dollars annuellement au cours des années quatre-vingt. MEER devrait offrir de nouveaux fonds s'adressant à la dimension géographique de l'adaptation industrielle.

36. Il importe de rappeler, toutefois, que ces programmes avec les changements proposés agissent à la marge. Quoique les fonds disponibles sous les programmes réguliers soient considérables, il convient de rappeler qu'aucun de ces programmes ne peut remplacer les politiques fiscales et monétaires que l'on peut effectivement appliquer pour faire fonctionner l'économie près de son niveau maximum ni les politiques-cadres qui favorisent une activité industrielle efficace et concurrentielle pouvant faciliter la réalisation d'autres objectifs. Les réponses du gouvernement aux recommandations des 23 groupes consultatifs des secteurs industriels et du comité de deuxième palier vont avoir pour résultat de nouvelles et importantes initiatives qui amélioreront les politiques cadres et compléteront les propositions formulées ici.

TABLEAU III (Suite)

Déboursés additionnels 1979-1980 en milliers de dollars	Programme	Programmes qui intéressent les entreprises
Autorisations Additionnelles 1979-1980		
6.0	3.5	Adaptation sur le plan du financement: Restructuration permettant de relever les nouveaux défis et d'atténuer les effets négatifs des NCM
6.0	2.0	Problèmes de structure - morcellement, échelle
25.0	12.0	Innovation - projets à frais partagés
3.0	1.0	Incitation à la recherche sur les produits du PEE
1.0	0.5	Développement des marchés - PEMD aux E.-U. - Projets de promotion - Partage des risques des principales initiatives
50.0	0.0	- Bureaux de vente à à l'étranger
3.0	1.0	- L'étranger du PEMD, etc.
2.4	2.4	Services de gestion commerciale de la BFD
0.1	0.1	Conseils commerciaux offrant l'aide de conseils aux petites entreprises de fabrication
98.6	24.6	Total des programmes qui intéressent les entreprises
198.1	\$124.6	Total du programme d'adaptation

34. Les 25 millions de dollars qui intéressent les entreprises pour 1979-1980 représentent un appui nouveau des programmes d'une valeur

être coordonnées avec les programmes provinciaux correspondants. Comme on a pu le constater dans les pages qui précèdent, chacun de ces ministères possède déjà un assortiment de programmes qui, tout en étant conçus pour répondre aux objectifs de ministères particuliers, peuvent servir d'une manière coordonnée comme éléments d'une stratégie d'expansion industrielle. Ces ministères fédéraux et les provinces vont devoir poursuivre leur travail en vue de créer de meilleurs mécanismes pour la coordination et l'offre des programmes.

## IX CONCLUSION

33. Dans l'ensemble, les mesures de programme et les initiatives de politique décrites plus haut et visant les entreprises et les travailleurs, ajoutées à la mise en application appropriée de mesures de soutien transitoires, constituent un ensemble exhaustif d'initiatives permettant de faire face aux problèmes et aux défis de l'adaptation qui vont exiger les années quatre-vingt. Le Tableau III offre un résumé des fonds additionnels accordés à ces secteurs pour l'année financière 1979-1980. Comme on peut le constater à la lecture de ce tableau, les mesures nouvelles de financement pour 1979-1980 s'élèvent à près de 125 millions de dollars, soit près de 100 millions de dollars pour l'adaptation nécessaire du marché du travail et 25 millions de dollars pour les entreprises.

TABLÉAU III

Programme	en milliers de dollars	Programme
1979-1980	1979-1980	1979-1980
Déboursés additionnels	Autorisations	Additionnelles

Programmes qui intéressent le marché du travail

Programmes de mobilité de la main-d'oeuvre	2.5	2.5
Services consultatifs de la main-d'oeuvre	2.0	2.0
Subventions transférables au titre du salaire	10.0	10.0
Service de réaction spéciale	5.0	5.0
Aide à l'expansion économique locale	10.0	10.0
Formation des compétences	70.0	70.0
Total des programmes qui intéressent le marché du travail	99.5	99.5

31. La variété et la diversité des programmes et des politiques que nous venons de décrire met en lumière la nécessité d'une approche coordonnée. Il faut coordonner l'application des critères des programmes pour assurer la poursuite d'un ensemble cohérent d'objectifs et pour empêcher que les programmes poursuivent des fins contradictoires. Il faut aussi coordonner la gestion des programmes afin d'atténuer les difficultés administratives des sociétés faisant appel à l'aide à l'adaptation, d'éviter le chevauchement à l'intérieur et entre les juridictions politiques des programmes et d'empêcher que les demandes d'aide se retrouvent "entre deux programmes". Enfin, puisque beaucoup d'initiatives sont prises en coopération étroite avec les gouvernements provinciaux et que les provinces offrent un large éventail de mesures d'aide directes, il est de la plus haute importance que les initiatives fédérales ne fassent pas double emploi avec les activités provinciales existantes et qu'elles ne compliquent pas indument non plus les arrangements fédéraux-provinciaux. Les accords auxiliaires axés sur l'industrie et conclus en vertu des Accords généraux sur le développement entre le MEER et les provinces ont constitué un moyen d'action efficace à cet égard.
32. Le processus de la coordination des initiatives fédérales s'appliquera aux programmes de l'Industrie et du Commerce, de Travail Canada, de la CEIC et du MEER. Ces initiatives, à leur tour, devront

#### VIII LA COORDINATION NECESSAIRE

L'ampleur des réductions tarifaires. Formule des réductions tarifaires. cas, des exceptions partielles ou entières seront appliquées à la tarification convenues au cours des années quatre-vingt et, dans certains des dispositions qui permettent l'application par étapes des réductions marchés nationaux et qui va résulter des NCM, le Canada va se prévaloir climat de concurrence qui va marquer les marchés d'exportation et les sont justifiées. En outre, afin de faciliter l'adaptation au nouveau permettent d'agir le plus rapidement possible lorsque de telles mesures intention d'améliorer dans la mesure du possible les procédures qui général. A l'égard de ces mesures, le gouvernement a rappelé son concessions tarifaires et les garanties qu'offre l'Accord préférentiel droits antidumping et les droits compensateurs, la renégociation des Mentionnons, à cet égard, les mesures de sauvegarde d'urgence, les aux obligations que le Canada possède sur le plan international. politique commerciale qui peuvent être prises conformément aux droits et nécessaire. A cet égard, il existe toute une gamme de mesures de concurrence injuste et pour faciliter la réalisation de l'adaptation les pressions d'une concurrence induite, pour atténuer les effets d'une toutefois, d'adopter des mesures de soutien transitoires pour atténuer sur les marchés mondiaux. Il pourra être nécessaire dans certains cas, l'amélioration de l'efficacité et du caractère concurrentiel de celui-ci



(j)

Pour déterminer le caractère, suffisant ou non, de la batterie actuelle de programmes et d'activités de promotion de l'exportation d'IT&C et pour identifier les moyens de profiter des nouvelles possibilités d'exportation, il a été créé un comité d'étude du secteur privé. Ce comité, qui doit faire rapport avant le 30 juin 1979, a reçu le ferme appui des gouvernements et la promesse du ministère de l'Industrie et du Commerce que celui-ci répondrait d'une manière positive aux recommandations qui lui seront faites.

## PROGRAMMES REGIONAUX

28. Les programmes régionaux ont comme objet principal d'identifier les perspectives de développement, faciliter la réalisation des opportunités de développement et d'encourager directement la création des emplois et les investissements dans les régions désavantagées. Comme support à l'objectif de développement régional, les programmes du Ministère de l'Expansion Economique Régionale (MEER) ont quelques fois aidé des firmes dans le but de préserver les emplois existants, quoique ces programmes concernent particulièrement l'aspect incitatif du développement industriel. Toutefois, une préoccupation est accordée au fait que l'orientation de ces programmes est de plus en plus dirigée vers les possibilités du développement industriel.

29. Il y a deux instruments principaux de la politique régionale qui intéressent directement le développement industriel: ce sont les Accords généraux sur le développement et le Programme de stimulants au développement régional. En 1977-78, ces deux programmes ont représenté respectivement 57% et 13% du total des dépenses du MEER. Les Accords fournissent une tribune à une action fédérale-provinciale coordonnée pour identifier et promouvoir les possibilités de développement industriel. Le Programme de stimulants a comme objectifs principaux de stimuler et de maintenir les possibilités de production et d'emploi dans les régions désignées comme ayant besoin d'une aide fédérale directe et de réaliser l'implantation de certaines opportunités identifiées en vertu des Accords. En 1977-78, le nombre d'offres acceptées sous le Programme d'incitation fut de 625, ce qui a représenté des coûts, en capital autorisé, de 477 millions de dollars et des engagements de 102 millions de dollars pour le MEER.

## VII MESURES DE SOUTIEN TRANSITOIRE

30. Les mesures positives décrites dans les lignes qui précèdent vont faciliter et encourager l'initiative du secteur privé pour

Pour assurer un accès facile à l'aide fédérale à l'adaptation de la part des entreprises qui vont être touchées par les NCM et pour aider les entreprises à profiter des possibilités liées aux NCM, il sera créé un groupe des NCM comme comité spécialisé de la Commission d'expansion des entreprises. Le groupe va accorder des subventions et donner accès aux prêts et aux garanties sur les prêts qui sont offerts par le PFE pour faciliter l'adaptation.

(1)

Pour raffermir la capacité de gestion d'un grand nombre de petites et de moyennes entreprises, le budget des services de gestion de la Banque fédérale de développement va être accru de quelque 2.4 millions de dollars par année. En outre, il va être établi plusieurs groupes consultatifs à l'égard du secteur privé dans l'ensemble du pays, ces groupes devant permettre aux grandes entreprises d'offrir des compétences et des conseils aux plus petites. En outre, l'aide à l'innovation et à l'adaptation du PFE, sera disponible aux entreprises qui investissent en actifs intellectuels autant qu'aux industries productrices de biens.

(h)

Pour qu'un éventail plus étendu de produits canadiens soit offert sur les marchés d'exportation, il sera lancé plusieurs projets de promotion spéciaux en association avec certaines expositions et missions commerciales, à un coût estimatif de quelque 2 millions de dollars par année.

(g)

Pour neutraliser les risques des projets importants d'immobilisation et de prise en mains sur les marchés étrangers, le gouvernement va continuer de déployer des efforts en vue d'offrir 100 millions de dollars de réassurance pour assurer les risques à l'exportation des sociétés canadiennes par le moyen de compagnies d'assurance privées.

(f)

accru de 5 millions de dollars par année pour soutenir d'une manière permanente le développement des marchés d'exportation.

de recherche et de mise au point, le gouvernement va faire passer le budget à l'innovation du Programme d'expansion des entreprises, actuellement de 25 millions de dollars, à 60 millions de dollars par année. La proportion du partage des coûts du PEE va être portée à 75% des coûts directs.

(c) Pour surmonter les problèmes du morcellement et de la petite échelle et pour faciliter la restructuration de l'industrie et les fusions entre entreprises fortes et faibles, 20 millions de dollars par année seront mis à la disposition des garanties intégrales à l'égard des prêts afin de faire échec aux faillites jusqu'à ce que l'on puisse organiser la prise en main des entreprises défaillantes, des accords de coassurance seront conclus pour l'appui des arrangements de ce genre en vertu du plafonnement de 1 milliard de dollars des garanties sur les prêts, décrits plus haut, et 4 millions de dollars seront disponibles chaque année pour des études de consultation visant à faciliter les fusions.

(d) Pour financer les propositions viables de restructuration à l'égard des entreprises de fabrication touchées ou susceptibles d'être touchées à la suite de la modification des modalités du commerce international, de nouvelles facilités d'assurance des prêts à 100% seront créées et offriront 20 millions de dollars d'assurance par année. En outre, 5 millions de dollars par année pourront être prêtés directement aux sociétés incapables de trouver d'autres moyens de financement, il y aura aussi des fonds pour l'aide à la consultation.

(e) Pour aider les petites et les moyennes entreprises à exploiter les possibilités de commercialisation qui existent aux Etats-Unis, le Programme pour le développement des marchés d'exportation sera étendu de manière à englober l'exportation des marchés des Etats-Unis. Les limites de financement du Programme seront augmentées de 2.5 millions de dollars par année. En outre, ce Programme sera encore

tenu en vue de l'exploitation de ces marchés.  
Il va falloir un effort particulier pour raf-  
fermir l'activité de promotion de l'exportation  
vers les Etats-Unis.

(d) Services de gestion - Il va falloir intensifier  
les efforts en vue d'améliorer la capacité de  
gestion des petites et des moyennes entre-  
prises.

(e) Impact des NCM - Le monde des affaires et celui  
du travail se préoccupent de l'impact possible,  
sur leurs entreprises, de barrières tarifaires  
et non tarifaires qui seront vraisemblablement  
appliquées progressivement au cours des années  
quatre-vingt à la suite des NCM. Un ensemble  
de mesures destinées à aider les entreprises à  
exploiter de nouvelles possibilités d'expor-  
tation et à les aider à restructurer leurs  
opérations en modifiant leurs gammes de pro-  
duits devant la nouvelle concurrence des  
marchés nationaux ferait la preuve de l'apui  
que le gouvernement veut donner à l'industrie et  
aiderait à rétablir la confiance envers l'éco-  
nomie.

### C. Initiatives dans le Cadre des Programmes

27. Cela étant, de nombreux et importants changements ont été  
annoncés dans le cadre des programmes actuels du ministère de  
l'Industrie et du Commerce. L'implantation de ces changements et autres  
demandera une consultation additionnelle avec les provinces et le sec-  
teur privé.

(a) Pour que les petites et les moyennes entre-  
prises puissent emprunter à terme suffisamment  
pour effectuer les adaptations leur permettant  
de profiter de l'évolution de la concurrence,  
le plafond qui s'applique à la garantie des  
prêts du PEE sera porté de 350 millions à 1  
milliard de dollars.

(b) Pour que les industries soient poussées à  
entreprendre des travaux de recherche, de  
conception et de mise au point comportant de  
grands risques et pour aider les petites et  
moyennes entreprises à se donner une capacité



rapport sur les possibilités identifiées d'amélioration des programmes d'appui industriel et de promotion de l'exportation qui dépendent directement du ministère de l'Industrie et du Commerce. Nous croyons que des changements seraient utiles dans les domaines que nous allons énumérer, à cause de l'intensification de la concurrence qui est à prévoir pour les années quatre-vingt.

(a) Financement - Pour que les petites et moyennes entreprises soient dotées de moyens de financement suffisants et puissent ainsi réaliser les adaptations nécessaires en vue de faire face aux pressions de la concurrence durant les années quatre-vingt, il va falloir augmenter les sommes consacrées aux programmes de soutien. En outre, il va falloir un financement accru pour appuyer l'innovation et la mise au point des produits afin d'aider les sociétés à produire de nouveaux articles et à prendre leur place sur de nouveaux marchés dont la rentabilité peut n'être pas immédiate.

(b) Changements sur le plan des structures - Certains des problèmes que crée la concurrence vont devoir se régler par des fusions et des acquisitions entre des entreprises vigoureuses et des entreprises faibles, ce qui, dans certains cas, peut constituer une solution de remplacement plus intéressante que les processus coûteux et inefficaces des faillites des entreprises déficientes. La structure actuelle des programmes ne comporte pas de mécanisme efficace pour faciliter de tels arrangements.

(c) Développement des marchés - Beaucoup d'entreprises canadiennes petites et moyennes n'ont que peu d'expérience de la commercialisation pour l'exportation ou même de l'identification des marchés plus lointains qui peuvent exister au Canada. En outre, elles sont, dans beaucoup de cas, trop petites pour assumer les grands risques que comporterait l'opération. A mesure que les pressions de la concurrence vont s'intensifier, au cours des années quatre-vingt, beaucoup d'entreprises vont avoir besoin d'une aide accrue pour identifier les marchés nouveaux ouverts à leurs produits et elles devront se faire aider à mettre en place un effort soutenu.

TABLÉAU II

Aide Offerte aux Entreprises, 1977-1978

Somme autorisée (en millions de dollars)	Nombre de projets	
18.8	181	PEE - innovation
106.4	84	adaptation
1.2	90	consultation
4.1	250	Programme des projets de promotion
11.5	962	PEMD
64.7	80	DIPP
21.1	24	Constructeurs de navires - SIAF
1.3		FTIAP <sup>3</sup>
491.0	9,977	BFD
90.8	5,236	LPPF <sup>2</sup>
		SEF <sup>2</sup>
1,182.4	46	prêts à l'exportation
1,445.9		assurance des crédits à l'exportation <sup>1</sup>
62.6	19	garanties sur les investissements à l'étranger <sup>1</sup>
102.0	625	RDIA
3,602.5 <sup>4</sup>	17,574	Total

1 Ces sommes représentent la valeur des exportations et des investissements assurés par le gouvernement au cours de 1977, plutôt que les fonds déboursés.

2 Année civile 1977.

3 Dépenses annuelles moyennes depuis que les programmes existent.

4 En outre, le programme relatif à la machinerie a rendu quelque 200 millions de dollars disponibles à l'industrie par des remises de droits de douane en 1977-1978.

Note: Les abréviations sont les suivantes: PEE - Programme d'expansion des entreprises, PEMD - Programme pour le développement des marchés d'exportation, DIPP - Programme de productivité de l'industrie du matériel de défense, SIAF - Programme d'aide aux constructeurs de navires, BFD - Banque fédérale de développement, LPPF - Loi sur les prêts aux petites entreprises, SEF - Société pour l'expansion des exportations, FTIAP - Programme de redressement des industries de la chaussure et de la tannerie.

## B. Possibilités d'améliorer les programmes

26. En ce qui concerne les programmes qui s'appliquent aux entreprises, les sections suivantes du présent document visent à faire

L'importation en vertu duquel des prestations d'aide pourraient être offertes aux travailleurs de secteurs qui ne relèvent pas actuellement du Programme.

(c) établir un mécanisme en vertu duquel la certification se fonderait sur la production plutôt que sur l'entreprise.

23. On prévoit que ces modifications par Travail Canada vont augmenter les besoins de fonds d'une moyenne annuelle de 5 à 10 millions de dollars, d'après le résultat des NCM, la conjoncture économique et le succès du passage aux critères de l'ensemble de produits dans de nouveaux secteurs.

## PROGRAMMES A L'INTENTION DES ENTREPRISES

### A. Programmes Existants

24. Les programmes de soutien à l'intention des entreprises visent généralement à améliorer les connaissances et à fournir des renseignements commerciaux; à raffermir la situation financière de l'entreprise; à encourager la recherche et l'innovation; à faciliter la rationalisation et la restructuration; à identifier et à créer de nouvelles possibilités sur les marchés; et à diminuer les risques. L'activité de programmes de ce genre vise habituellement la petite et la moyenne entreprises, où l'on sait que résident les plus grands besoins.

25. Plusieurs ministères et organismes du gouvernement offrent l'appui de leurs programmes aux entreprises industrielles. On en trouvera le résumé dans le Tableau II. La valeur totale de l'appui fournie aux entreprises s'est élevée à quelque 3.6 milliards de dollars en 1977-1978. De cette somme, plus de 100 millions constituent une aide fournie dans le cadre du programme RDIA, dont nous traiterons d'une manière plus détaillée dans la partie suivante, qui porte sur les programmes régionaux. Notons que les activités de financement de l'exportation de la Société pour l'expansion des exportations et l'appui fourni à la petite et à la moyenne entreprises par la BFD comptent pour beaucoup dans ce total. L'aide financière comprend diverses formes de subventions, de frais directs et de garanties sur les prêts. Il convient de noter que le total ne représente pas uniquement les fonds effectivement versés par le gouvernement. Par exemple, environ 1.5 milliard de l'appui fourni par la SFE et 106 millions du programme d'aide du FEE consistent en frais accessoires se présentant sous la forme d'une assurance de crédits à l'exportation et de garanties sur les prêts.

- de faciliter le déplacement des travailleurs vers les centres de formation et vers les emplois et les localités où on a besoin d'eux.
- (d) Le Programme d'aide à l'expansion économique locale constitue une initiative nouvelle devant stimuler et aider l'emploi local dans le secteur privé à l'expansion de la petite entreprise et à stimuler la participation à ce processus et sa prise en mains de la part des collectivités locales.
- (e) On vient de mettre sur pied un "service de réaction spéciale" qui est autorisé à approuver les projets du programme Canada au travail hors du processus normal d'application et, au besoin, à compléter les autres programmes pertinents de la Commission dans les cas où il y a eu perturbation du marché local du travail à la suite d'un désastre naturel ou de la cessation imprévue de l'activité d'un employeur important dans une petite localité, à l'exclusion des situations qui résultent des différences du travail. Bien qu'il n'existe formellement aucun moyen de prévoir la demande dont ce financement va être l'objet, on a mis de côté 5 millions de dollars à cette fin pour 1979-1980.
- (f) On est à travailler un programme de subvention transférable au titre du salaire dans le but d'augmenter les opportunités d'emploi pour quelques travailleurs déplacés, incluant ceux qui sont congédiés à cause de l'adaptation industrielle.
22. En ce qui concerne les programmes mis sur pied à l'intention des travailleurs âgés du textile, du vêtement et de la chaussure, Travail Canada procède à:
- (a) modifier les critères d'admissibilité aux prestations dans le cas des ouvriers de la chaussure et de la tannerie de manière à bien tenir compte des effets de la concurrence des produits importés.
- (b) mettre en place un nouveau programme cadre à l'égard des secteurs affaiblis par



du programme et faciliter grandement les adaptations considérables du marché du travail que semblent devoir exiger les années quatre-vingt.

(b)

Les programmes de formation reçoivent actuellement une orientation nouvelle selon laquelle on insistera beaucoup plus sur la formation des compétences et sur la formation sur place pour répondre aux besoins de l'expansion industrielle. Pour l'année 1979-1980, 70 millions de dollars de plus ont été attribués à la formation des compétences pour la satisfaction des besoins de l'industrie. Vingt millions de dollars de ce supplément serviront à la mise en place, avec l'aide des provinces, du monde des affaires et du monde industriel, d'un Programme relatif aux pénuries aiguës de main-d'oeuvre qualifiée. De plus, la stratégie de l'emploi de 1979-1980 mettra 20 millions de dollars de plus à la disposition d'un programme ordinaire, soit le Programme de formation industrielle de la main-d'oeuvre du Canada. Les fonds seront fournis aux entreprises et serviront à défrayer une partie des coûts entraînés par l'expansion des services de formation spécialisée. Le Programme de formation de la main-d'oeuvre du Canada recevra 30 millions de dollars de plus en 1979-1980, les fonds additionnels devant servir exclusivement à fournir la formation dans les maisons d'enseignement et les allocations nécessaires à la formation des compétences répondant aux besoins des industries.

(c)

Le budget des services consultatifs de la main-d'oeuvre fait l'objet d'une augmentation de 2 millions de dollars pour 1978-1979. Ce service constitue le principal moyen utilisé par la CECIC pour encourager les employeurs et leurs employés à travailler ensemble à la solution des problèmes d'adaptation de la main-d'oeuvre créés par les modifications économiques, techniques et autres subies par des entreprises ou des industries particulières. Il sert de catalyseur entre les deux parties pour ce qui est

21. Tenant compte de ce qui précède, la Commission de l'emploi et de l'immigration du Canada a incorporé plusieurs modifications importantes de ses programmes dans sa stratégie de l'emploi. Mentionnons, à cet égard, les éléments suivants:

(a) Le programme de mobilité de la main-d'oeuvre fait l'objet d'une expansion grâce à laquelle le programme englobera un élément "stratégique" pouvant aider à relocaliser les travailleurs dans des cas particuliers d'expansion ou de restriction de l'emploi. Ce changement devrait augmenter d'une manière importante la souplesse

(c) Mesures de soutien d'urgence

C. Initiatives dans le cadre des programmes

Des usines vont fermer leurs portes et l'emploi va être réduit considérablement dans certaines industries. Il pourra en résulter la perte permanente d'emplois et de revenus dans le cas des travailleurs plus âgés et moins mobiles, qui peuvent avoir besoin d'un soutien du revenu plus permanent que celui qu'offre l'assurance-chômage ou de mesures spéciales qui les aident à trouver de nouveaux emplois.

industrielle est constituée par la grande croissance prévisible de secteurs qui comptent pour une part relativement grande sur le travail des cols bleus très spécialisés. Il faudra donc, manifestement, fournir une formation additionnelle à l'égard de ces compétences, surtout dans certains métiers critiques où l'offre est demeurée relativement peu abondante dans les périodes mêmes où le chômage était élevé. Une des améliorations qui s'imposent le plus, c'est de créer des programmes de formation axés sur l'employeur pour la création de ces compétences, surtout dans les métiers qui, jusqu'à présent, ont compté sur les immigrants comme source importante de main-d'oeuvre spécialisée. Il va désuètes par suite de l'évolution plus rapide des modes de production.

Une des conséquences critiques, en ce qui concerne le marché du travail, de l'adaptation

(b) **Formation**

Il y a des régions géographiques particulières qui vont subir de fortes pressions sur le plan de la concurrence au cours des années quatre-vingt. Dans certains cas, les possibilités de remplacement de l'emploi n'existeront pas dans ces régions et le processus de l'adaptation industrielle va exiger, par conséquent, des mesures permettant d'aider les travailleurs et leurs familles à se relocaliser dans des régions où la demande de main-d'oeuvre est plus forte.

(a) **Mobilité de la main-d'oeuvre**

20. Globalement, ces programmes d'adaptation au marché du travail constituent un appareil exhaustif des moyens qui se compare favorablement avec les programmes qui existent dans les autres pays industrialisés. Néanmoins, étant donné le caractère extrêmement dynamique du marché du travail canadien et les pressions très fortes de la concurrence qui devraient s'exercer au cours des années quatre-vingt, il est nécessaire de raffermir les programmes visant le marché du travail dans les secteurs suivants:

**B. Possibilités d'améliorer les programmes**

dans 21 projets pilotes où les employés travaillaient moins d'heures et voient leur rémunération complétée par des prestations partielles d'assurance-chômage. Une autre approche consiste à utiliser les prestations d'assurance-chômage pour défrayer le coût des allocations versées aux personnes qui sont en formation dans des maisons d'enseignement, les épargnes ainsi réalisées permettant de fournir une formation additionnelle. On prévoit que cette dernière modalité devrait représenter quelque 100 millions de dollars en 1977-1978. On explore, à l'heure actuelle, la possibilité d'utiliser les fonds de l'assurance-chômage pour appuyer la formation industrielle. L'utilisation des fonds de l'assurance-chômage pour appuyer la création d'emplois sera mise en place comme projet pilote au cours de l'automne avec un maximum d'un projet par province. Un programme de formation et d'expérience professionnelles (PFEF) financé par l'assurance-chômage et appliqué aux jeunes travailleurs en chômage a été mis au point et incorporé dans la stratégie de l'emploi de 1979-1980. Une somme pouvant atteindre 40 millions de dollars pourrait être mise à la disposition de l'élément de l'assurance-chômage consacré au maintien du revenu.

1	Données préliminaires
2	1977; comprend 89,028 personnes possédant des vis
3	Programme Canada au travail et Programme d'aide à
4	locale d'emplois seulement
5	Année financière 1978-1979
	Moyenne annuelle depuis l'adoption du Programme.

TABLEAU I (Suite)	
Dépenses (en millions de dollars)	Population active participante (en milliers)
123.7	4,525.4
494.8	233.0
76.5	63.5
10.0	44.7
61.2	204.0 <sup>2</sup>
293.3	71.7
100.0 <sup>4</sup>	50.0
2.1	0.4
--	n/a
159.0 <sup>4</sup>	n/a
1,063.8	
Total	



certaines secteurs industriels, certaines régions et certaines localités. Dans la suite du présent document, nous allons examiner ces politiques d'adaptation industrielle. Aux fins de la discussion, nous les avons classées en programmes touchant le marché du travail, programmes à l'intention des entreprises, programmes régionaux et mesures d'aide de transition. Un des principaux problèmes qui se posent, c'est celui de coordonner ces divers éléments de programmes pour constituer un programme global d'aide à l'adaptation.

#### IV PROGRAMMES D'ADAPTATION DU MARCHE DU TRAVAIL.

##### A. Programmes Existants

18. Les programmes relatifs au marché du travail visent à améliorer les compétences des travailleurs; à accroître la mobilité géographique et professionnelle; à fournir un soutien temporaire du revenu; à surmonter les pénuries et les étranglements de la main-d'oeuvre; et, dans certains cas, à créer directement de l'emploi. Les politiques d'immigration facilitent le processus d'adaptation en rendant possible l'arrivée d'immigrants possédant des compétences qui font défaut chez les Canadiens. A cause du chômage considérable qui existe actuellement, la formation et la mobilité des travailleurs canadiens vont recevoir la priorité par rapport à l'immigration. Les programmes administrés par la Commission de l'emploi et de l'immigration du Canada et par Travail Canada ont facilité l'adaptation et le développement du marché du travail dans le passé et il est à prévoir que ce rôle va se maintenir à l'avenir. Le Tableau I résume les dépenses effectuées en vertu des programmes visant le marché du travail au cours de l'année financière 1977-1978. Les prestations d'aide de transition visant les travailleurs du textile, du vêtement et de la chaussure sont administrées par Travail Canada et les autres par la Commission de l'emploi et de l'immigration du Canada. Le total des dépenses effectuées en vertu de ces programmes s'est établi à un peu plus d'un milliard de dollars en 1977-1978.

TABLÉAU I

Données Statistiques sur des Programmes Choisis Visant  
le Marché du Travail

Année financière 1977-1978	
Depenses (en millions de dollars)	Population active participante (en milliers)
2.2	335.3
Services consultatifs de la main-d'oeuvre (SCM)	

17. Il convient sans doute d'appliquer les politiques macroéconomiques et les politiques cadres évoquées plus haut, mais il demeure nécessaire d'adopter des mesures spéciales pour aider les entreprises et les travailleurs à s'adapter à la situation nouvelle de la concurrence, particulièrement lorsque les facteurs de la structure ou des institutions paralysent le processus d'adaptation des marchés ou que le fardeau de l'adaptation retombe inégalement sur certains travailleurs.

16. Les premiers ministres ont lancé en février 1978 une série ambitieuse de consultations réunissant le monde des affaires, le monde syndical et les gouvernements avec la formation de 23 groupes consultatifs de secteurs industriels qui, dans l'ensemble, représentent une grande partie du secteur de la fabrication ainsi que la construction et le tourisme. Les rapports de ces groupes consultatifs ont été étudiés par un comité de deuxième palier chargé d'identifier les questions et les secteurs de préoccupation communs et de discerner les incidences générales de la situation sur le plan des politiques. Le rapport du comité de deuxième palier vient tout juste d'être publié. Le comité présente des recommandations portant sur la plupart des secteurs des politiques cadres, y compris le commerce et les NCM, la main-d'oeuvre et les relations de travail, l'impôt, la recherche et le développement, l'énergie, le transport, l'expansion régionale, les achats publics et la rationalisation de l'appareil de l'Etat. Les gouvernements fédéral et provinciaux ont entrepris de réagir d'une manière positive et significative à ces recommandations et élaborent actuellement les mesures qu'il faut à cet égard.

Il faut établir ces cibles à moyen terme au cours de l'automne de 1978 et il révisé actuellement le potentiel économique prévu pour le Canada des années quatre-vingt. Un grand nombre de politiques cadres exercent une influence considérable sur la structure et le coût des opérations industrielles. Une quantité considérable de travail visant à ce que ces politiques appuient mieux l'expansion industrielle est actuellement en cours dans les groupes consultatifs des secteurs industriels, au Conseil économique et dans d'autres entités. Les politiques cadres les plus importantes comprennent l'impôt, les politiques régissant le marché du travail, l'innovation et la technologie, les politiques commerciales, les mesures de protection de l'environnement, les politiques d'achats publics, la politique de la concurrence, les autres règlements publics, la politique du transport et la politique de la petite entreprise. Les politiques relatives aux ressources dans les secteurs de l'énergie, des minéraux, de la forêt, de la pêche et de l'agriculture, par exemple, visent la réalisation d'une extraction, d'une gestion et d'une conservation efficace des ressources. Les politiques régionales et les variations de la gestion de la demande, les politiques cadres et les politiques sectorielles se fondent sur les points forts des régions ou font face à des contraintes de caractère régional.

15. La politique de l'expansion industrielle englobe un grand nombre d'éléments des autres politiques et des autres programmes. L'adaptation industrielle n'est qu'un aspect de la politique d'expansion industrielle. Ces autres éléments comprennent les politiques macro-économiques qui sont dirigées vers la demande et les investissements globaux en même temps qu'elles s'efforcent de réduire la pression de l'inflation. A cette fin, le ministère des Finances a

### III INITIATIVES SUR LA PLAN DE LA POLITIQUE D'EXPANSION INDUSTRIELLE

14. Il est utile de rappeler que le Canada a connu (et en a profité) des changements radicaux de structure au cours de son histoire et que, dans des cas, la restructuration a été préconisée par les gouvernements. L'Accord sur le partage de la production de défense entre le Canada et les Etats-Unis et le Pacte de l'automobile, par exemple, ont amené une rationalisation considérable et amélioré le rendement concurrentiel ainsi que l'importance relative croissante des secteurs industriels en cause. De nouveaux emplois ont vu le jour dans la fabrication et dans les services devant le transfert des travailleurs ruraux rendu nécessaire par la montée radicale de la productivité agricole. L'aptitude à réaliser et à maintenir un processus dynamique de croissance et de changement industriels a constitué un élément clé des augmentations radicales que l'on a constatées dans l'emploi, la production et le niveau de vie au Canada avec les années et il est de la plus haute importance que les politiques gouvernementales appuient pleinement ce processus à mesure que l'économie s'apprête à relever le défi de la concurrence des années quatre-vingt.

13. On pourrait être tenté, dans de telles situations, de remettre à plus tard la nécessité de l'adaptation et des perturbations qu'elle entraîne immédiatement en adoptant des politiques de protection ou de subventions. S'il est vrai que de telles tactiques défensives peuvent être défendables à l'occasion lorsqu'on veut étaler l'adaptation et permettre la naissance et la maturation de réactions plus positives, on ne saurait les considérer comme une solution permanente. L'expérience montre que des activités qui sont essentiellement non concurrentielles exigent un ensemble toujours plus imposant de mesures de protection ou de subventions, que les travailleurs et les capitaux sont empêtrés dans des situations où la création du revenu n'est au mieux que marginale et qu'une main-d'oeuvre nouvelle et de nouveaux capitaux peuvent être attirés au pays et des activités plus efficaces en être écartées, car, en dernière analyse, ce sont ces activités qui doivent subir le coût d'un soutien artificiel.

tendances à long terme et apparemment durables qui révèlent le maintien d'un déplacement vers l'ouest des possibilités et de l'activité économique du pays.



12. La dimension géographique de l'adaptation industrielle pour-  
rait bien donner naissance à des problèmes particulièrement difficiles  
puisque certaines usines devront sans doute fermer leurs portes dans des  
localités où la base industrielle est faible. Le textile, le vêtement  
et les métaux primaires sont concentrés dans des localités particulières  
des régions particulières et les fermetures ou les ralentissements pour-  
raient compromettre la santé économique de toute la région. Qui plus  
est, les obstacles du coût, de la langue et des compétences entraînent  
des coûts économiques et sociaux plus élevés lorsqu'il s'agit de dépla-  
cer les travailleurs vers d'autres régions ou d'autres occupations.  
Enfin, l'acteur qui intéresse tout particulièrement le moyen terme, une  
partie de l'adaptation nécessaire va devoir se faire dans le cadre de

11. Les situations de ce genre sont susceptibles d'aboutir à des  
fermetures d'usines et à une perte d'emplois à cause, soit de l'incapa-  
cité de survivre, soit de la rationalisation des sociétés. Ainsi que  
nous l'avons noté plus haut, de tels réservoirs constituent un élément  
essentiel du processus économique et il faut se féliciter qu'ils se pro-  
duisent lorsque les ressources déplacées peuvent être facilement trans-  
férées vers des emplois de remplacement. La difficulté devant laquelle  
nous nous trouvons à l'heure actuelle, c'est que cette facilité de relo-  
calisation n'est aucunement assurée étant donné le peu de vigueur des  
économies mondiale et canadienne.

10. Manifestement, il se présentera aussi des situations,  
traduisant en général la continuation des tendances à long terme, qui ne  
peuvent être considérées que comme difficiles ou même négatives. En  
général, ces situations auront tendance à se concentrer sur des secteurs  
particuliers qui font face, à l'heure actuelle, à une vive concurrence  
sur le plan de l'importation, par exemple les textiles, le vêtement, la  
chaussure, les produits électriques de consommation et une partie de  
l'industrie de la fabrication métallique. On peut y annexer une part  
considérable des industries de transformation des richesses naturelles -  
bois et papier, métaux primaires et produits minéraux non métalliques -  
où une modernisation et une rationalisation considérables s'imposent si  
l'on veut demeurer concurrentiel dans l'environnement qui est à prévoir  
pour les années quatre-vingt. La nécessité de la rationalisation est  
aussi manifeste dans plusieurs autres industries, par exemple celles du  
meuble et de la construction de navires.

Certains entrepreneurs, par exemple, peuvent  
manquer des moyens financiers ou de la compétence en gestion qu'il faut  
pour équiper une usine ou pour mettre sur pied une organisation de  
vente sur un marché peu connu. Les usines canadiennes des sociétés  
multinationales pourraient bien être paralysées par les stratégies  
mondiales des sociétés. Dans les situations de ce genre, le gouver-  
nement pourrait avoir raison d'intervenir.



9. Dans le cas de la plupart de ces situations en évolution, il est probable que les perspectives sur le plan de la demande et de profits vont être suffisantes pour assurer la réalisation des possibilités offertes. Dans d'autres cas, toutefois, cela pourrait très

8. Ces pressions font naître des possibilités en même temps que des problèmes pour les entreprises canadiennes. L'aptitude des entreprises à réaliser ces adaptations va être favorisée par le rajustement récent des valeurs du change étranger, qui a considérablement amélioré le rendement du Canada par rapport aux autres pays sur la plan des coûts. Toutefois, l'abaissement de la pression concurrentielle résultant de la dépréciation monétaire ne doit pas être considéré par les producteurs nationaux comme voulant dire qu'il n'est plus nécessaire de travailler à un rajustement dans le sens d'une structure économique susceptible d'être maintenue à long terme. Les entreprises dynamiques vont adapter la composition de leurs produits ou leur activité de commercialisation de manière à servir un groupe d'âge différent au Canada, à exploiter les revenus croissants des pays peu développés ou à accéder aux autres marchés étrangers créés par les modifications commerciales. Il va y avoir de la place pour une activité commerciale rentable dans les secteurs de la mise en valeur, de la transmission et de la conservation de l'énergie. L'exploitation de nos pêcheries agrandies devrait accroître considérablement les possibilités de transformation et d'emploi dans les régions côtières.

(g) Les changements connexes de la taille et de la composition de la population active, qui pourraient avoir une influence sur la part respective des capitaux et de la main-d'oeuvre.

(f) La ralentissement de la croissance démographique et les modifications de la répartition de la population par groupes d'âge qui exercent des effets sur la croissance globale de la consommation et sur les niveaux relatifs de la demande dont sont l'objet de nombreux produits;

(e) L'avènement de nouvelles bases de ressource dans le monde, y compris l'extension des limites de la pêche et l'exploitation minière du fonds des mers;

(d) Le déplacement de l'avantage comparatif entre les pays et au sein des pays à cause de la montée radicale du prix relatif de l'énergie et d'autres ressources;

concurrence. Les gouvernements ont participé à ce processus au moyen d'un large éventail de politiques et de programmes. Parmi ceux-ci, il y en a qui sont d'une portée générale et qui visent à créer et à infléchir l'environnement économique de la croissance et du changement. D'autres portent sur des problèmes particuliers de l'essor industriel et ont comme objet général de faire disparaître les obstacles qui s'opposent au bon fonctionnement des forces du marché ou qui en modifient les résultats et d'écarter ou d'atténuer les perturbations qui résultent inévitablement de tout processus dynamique.

6. Toute une gamme de pressions actuelles et attendues qui relèvent de la concurrence et de la démographie infléchissent les perspectives et les besoins en matière de politiques de l'industrie canadienne. Il y a un facteur de concurrence qui préoccupe considérablement le monde des affaires: il s'agit des NCM, dont les résultats devraient s'appliquer par étapes au cours des années quatre-vingt. Bien qu'on ne sache pas encore quel va être le résultat exact des NCM, il est très vraisemblable que ces négociations aient pour résultat une réduction considérable des tarifs douaniers, des règlements relatifs au commerce améliorés et intégrés avec une réduction et un meilleur contrôle des barrières non-tarifaires et commerciales. Bien que les résultats des NCM fourniront à l'industrie canadienne un meilleur accès aux marchés étrangers, certaines entreprises doutent de leur aptitude à effectuer les adaptations nécessaires pour faire face à la concurrence, étant donné que les conditions économiques difficiles qui existent actuellement.

7. Les NCM ne constituent qu'un exemple des nombreux changements importants qui vont marquer le milieu de la concurrence dans lequel devront évoluer les entreprises canadiennes. Parmi les autres développements qui pourraient avoir des répercussions encore plus considérables, mentionnons:

(a) La situation mondiale actuelle, marquée par le ralentissement de la demande, par la grande sous-utilisation des capacités, par la montée des coûts et des prix et par l'apreté de la concurrence qui s'exerce à l'égard des marchés existants - situation qui va mettre plusieurs années au moins à se modifier;

(b) Les aspirations des pays peu développés à s'industrialiser, qui touchent particulièrement les textiles, le vêtement, la chaussure, les pièces électroniques et les articles de sport;

(c) Les efforts faits par les Etats-Unis pour améliorer leur balance des paiements;

5. La croissance et l'évolution de la structure industrielle ont toujours constitué une caractéristique éminemment souhaitable de l'expansion économique au Canada. On a toujours compté surtout sur l'initiative privée pour ce qui est des investissements et des autres décisions opérationnelles permettant au secteur industriel de croître et de restructurer ses activités conformément à l'évolution des exigences et des possibilités des marchés ainsi qu'aux pressions de la

## II SITUATION ET PERSPECTIVES DE L'INDUSTRIE

4. Dans le cadre de sa stratégie de l'emploi de 1979-1980, la Commission de l'emploi et de l'immigration du Canada a effectué des changements en vue d'aider d'avantage les travailleurs à se relocaliser dans les secteurs où existent des possibilités d'emploi, d'accorder d'avantage de fonds pour la formation des travailleurs, notamment dans les catégories des cols blancs spécialisés, et de fournir une aide exceptionnelle aux travailleurs qui sont sérieusement touchés par les perturbations importantes de l'emploi qui surviennent dans leurs localités. La somme additionnelle accordée à ces nouvelles initiatives en 1979-1980 s'établit à près de 100 millions de dollars. Les améliorations apportées aux programmes de stimulants à l'industrie du ministère de l'Industrie et du Commerce vont comporter une dépense accrue de quelque 25 millions de dollars en 1979-1980 et de plus du double de cette somme les années subséquentes. Le supplément des déboursés par les ministères "Emploi et Immigration" et "Industrie et Commerce" consacrés à l'adaptation industrielle en 1979-1980 pourra donc s'établir à quelque 125 millions de dollars. Toutefois, le soutien additionnel rendu possible par les programmes en vertu de ces changements va être bien supérieur à cause des avenues ouvertes par les garanties d'emprunt et les mécanismes d'assurance, qui ne puisent pas directement dans le trésor public. On s'attend à ce que l'appui fourni par les programmes du ministère de l'Industrie et du Commerce lesquels font une utilisation intense des mécanismes relatifs aux garanties et à l'assurance, s'élève à 100, 270 et 300 millions de dollars respectivement en 1979-1980, 1980-1981 et 1981-1982. Travail Canada étend l'application de ses programmes, les dépenses additionnelles des fonds prévus pour les années quatre-vingt se situent annuellement entre 5 et 10 millions de dollars. En outre, le ministère de l'Expansion économique régionale va verser 50 millions de dollars additionnels au titre des accords auxiliaires visant à promouvoir le développement économique, à faciliter l'adaptation et, le cas échéant, à fournir l'appui d'une infrastructure aux secteurs qui devraient bénéficier de l'environnement créé à la suite des négociations commerciales multilatérales (NCM). Ces modifications des programmes, que nous allons examiner d'une manière plus détaillée dans les lignes qui suivent, constituent un ensemble global d'initiatives permettant de faire face aux problèmes et aux possibilités de l'adaptation industrielle au cours des années quatre-vingt.



## POLITIQUES D'ADAPTATION INDUSTRIELLE

### I INTRODUCTION

1. Le gouvernement s'est engagé à réviser son ordre de priorité en accordant plus d'importance aux mesures visant à raffermir et à encourager l'expansion économique. Ces mesures vont comprendre des projets et des initiatives d'investissement sélectif de capitaux par lesquels on espère favoriser l'essor de certains secteurs particuliers de même que la réaction du gouvernement aux rapports des groupes consultatifs, une attention toute spéciale étant accordée aux politiques horizontales et aux politiques cadres ainsi qu'à l'environnement de l'activité commerciale. En outre, on s'intéresse de près à la nécessité de l'adaptation industrielle dans l'environnement international concurrentiel des années quatre-vingt.

2. L'adaptation industrielle suppose l'offre de services d'appui aux entreprises commerciales en vue de faciliter la modernisation et la réorganisation des services de production existants, l'adoption progressive de nouveaux groupes de produits et l'identification ainsi que l'exploitation des nouvelles possibilités des marchés. Sur la plan du travail et de la main-d'oeuvre, cette adaptation suppose une aide au recyclage, à la recherche des emplois et au déplacement des travailleurs pour aider les travailleurs touchés à trouver de nouvelles possibilités de travail et, dans certains cas extrêmes, l'offre de mesures de soutien du revenu s'ajoutant aux prestations d'assurance-chômage.

3. Les principaux ministères fédéraux qui fournissent une aide aux entreprises et aux travailleurs sur le plan de l'adaptation industrielle sont le ministère de l'Industrie et du Commerce, Travail Canada et la Commission de l'emploi et de l'immigration du Canada. En outre, le ministère de l'Expansion économique régionale offre un appui industriel important dans le cadre de son mandat relatif à l'amélioration de l'équilibre régional. Chacun de ces ministères possède déjà des programmes qui, dans leur forme actuelle, offrent des éléments utiles d'un ensemble de mesures d'adaptation industrielle. Une évaluation importante visant à déterminer si ces programmes suffisent devant les pressions de la concurrence qu'annoncent les années quatre-vingt a déjà été entreprise et il en est résulté l'amélioration de certains programmes et, dans quelques cas, l'approche de nouveaux programmes. Ces modifications sur le plan des programmes vont améliorer considérablement l'aptitude du gouvernement fédéral à aider les entreprises et les travailleurs à relever les défis que vont poser les années quatre-vingt sur le plan de la concurrence.





Document de travail

**Conférence  
des premiers ministres  
sur l'économie**

Du 27 au 29 novembre 1978

**Politiques d'adaptation industrielle**  
Ministère de l'Industrie et du Commerce



**Discussion Paper**

**First Ministers' Conference  
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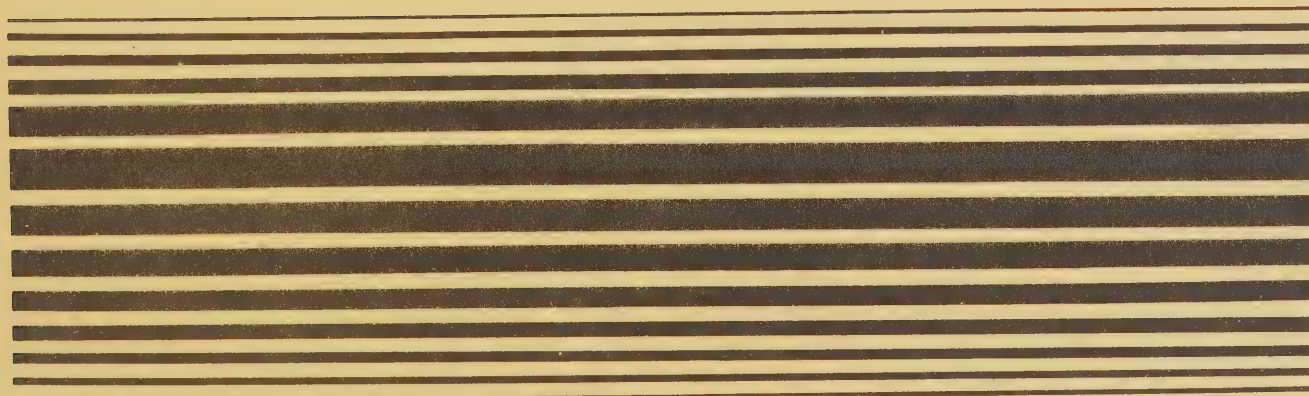
**A review of  
Canada's medium-term  
economic prospects**

**Department of Finance,  
Canada**

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## PREFACE

Last February, First Ministers began the process of consultations on a medium-term economic strategy for Canada. As part of this process I issued a paper, Canada's Economy - Medium-Term Projections and Targets, which was intended to provide an aggregate economic framework within which the problems and opportunities for different sectors and regions in the economy could be analyzed and discussed.

Over the last few months officials in my department have had an opportunity to discuss the analysis and projections in Canada's Economy with many groups in the business, labour, government and academic communities. A wide range of views was expressed. Our targets for economic recovery to achieve faster growth with both lowered unemployment and inflation were regarded by some as being too ambitious and unachievable; to others they were not ambitious enough. Although there was not always agreement on the detailed analyses there was, nevertheless, a general consensus that the work had made a helpful contribution to a better understanding of the opportunities, challenges and problems that face Canadians in the medium and longer term.

First Ministers are now meeting to continue their discussions on Canada's medium and longer-term economic prospects. To assist this work, I have had prepared a review of Canada's medium-term economic prospects in the light of developments in 1978 and the outlook for 1979. It is well known that economic events can change quickly and unexpectedly. Such has been the case over the last few months. In some ways and for a variety of reasons economic performance in 1978 is falling short of earlier expectations and the recovery path outlined in Canada's Economy. Nevertheless, 1978 has been a year in which we have made much progress in laying the basis for growth in the 1980s. It is important that we work together to build on the opportunities now available.

The Honourable Jean Chrétien,  
Minister of Finance

November, 1978



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## 1. INTRODUCTION

Earlier this year the government set in motion the process of developing a medium-term economic strategy. A series of Federal-Provincial Ministerial meetings were held, culminating in a meeting of First Ministers in February. While much of the work done at these meetings was similar to work which had been undertaken in the past, these initiatives represented significant steps in attempting to integrate policy approaches in a number of sectors and in extending the time horizon over which policy options are analyzed.

In order to provide a macroeconomic framework within which to examine and discuss sectoral problems and developments, the Department of Finance published a document - Canada's Economy - Medium-Term Projections and Targets. That document was intended to provide a longer-run perspective on the growth potential of the Canadian economy. It also outlined a possible medium-term recovery path which would move the Canadian economy closer to potential levels of output over the next four to five years.<sup>1</sup> The paper reaffirmed the federal government's commitment to work with the provincial governments, business and labour and other economic interest groups in the development of policies which would help initiate and sustain the growth of output and employment over the medium term, and lead to significant reductions in the rates of inflation and unemployment.

Underlying the projected recovery path in Canada's Economy were three important propositions. First, Canada's Economy stressed that the essential condition for the achievement of the projected recovery was that there be continued progress in the restoration of price and wage stability in the economy. A significant decline in the rate of inflation would provide stimulus to consumption and investment growth and contribute, as well, to improved competitiveness in Canadian industries, thus permitting the foreign sector to be a net contributor to growth over the medium term.

Second, to the largest extent possible the growth in output and employment over the medium term should come from the private sector. There is a commitment by all levels of government to expenditure restraint. There is a necessity, as well, that government deficits, while providing essential fiscal stimulus during the early stages of recovery, should decline in relation to the gross national product as the recovery proceeds.

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<sup>1</sup> Canada's Economy - Medium-Term Projections and Targets, Department of Finance, February, 1978.

The third and last proposition stressed that the achievement of a sustained recovery would require co-operation not only among all levels of government but among all major actors in the economy. While governments could do much to promote the recovery through the use of demand management policies, incomes policies, and framework and sector specific policies, they alone could not ensure that the projected recovery occurred. This was particularly true in the case of the improved inflation performance required. The inflation target in Canada's Economy represented a significant reduction from the existing high rates of inflation and implied a return to rates experienced in the 1960s. The simultaneous reduction in the rates of inflation and unemployment represented a major challenge since historically these two rates have not moved together during recoveries. Without the evolution of new price-and-income-determining behaviour by governments, business and labour, the inflation target would not be achieved and the recovery would falter.

A number of Federal-Provincial Ministerial meetings, including two meetings of Finance Ministers, have been held since the February conference as part of the continuing work in developing a medium-term economic strategy. First Ministers are meeting to discuss the progress which has been made in overall economic policy and in a number of sectors, and to consider future initiatives. This paper is intended to complement these discussions. It provides a review of the main themes in Canada's Economy in the light of recent economic developments and the further work which has been done on the medium and longer-term prospects for the economy.

The paper has six further sections. Section 2 reviews the longer-run growth prospects for the economy and the factors which are important in determining them. Section 3 summarizes the main characteristics of the medium-term recovery path presented in Canada's Economy. The fourth section expands on one of the main themes of section 3, as it reviews the factors underlying Canada's recent inflation experience. Section 5 reviews the economy's medium-term economic prospects in the light of developments in 1978 and the outlook for 1979. Section 6 discusses briefly some of the main sectoral developments and issues. The final section reviews a number of policy issues and initiatives which bear directly on the performance of the overall economy and the achievement of the medium-term economic objectives.

## 2. CANADA'S LONG-TERM GROWTH PROSPECTS - A REVIEW

In analyzing the possibilities for economic growth over the medium term, the paper of last February first developed a view regarding the longer-run growth potential of the Canadian economy. A longer-run growth line provides a benchmark against which the current cyclical position of the economy may be assessed. Since 1974 the Canadian economy has tended to grow relatively slowly on average. Comparing present levels of gross national expenditure with output levels along a longer-run growth line gives an indication of the size of the current "output gap". In addition, estimates of future longer-run growth possibilities are critical to an assessment of what rates of growth from present GNE levels are possible over the medium term.

A simple yet analytically useful measure of long-run economic growth is growth in gross national product and expenditure adjusted to eliminate the effects of the cyclical variation in the economy. Canada's Economy presented historical estimates of cyclically-adjusted GNE growth covering the period 1953 to the mid 1970s, and provided a projection of cyclically-adjusted GNE growth from the mid 1970s to 1995. Within the conventional framework employed in Canada's Economy, cyclically-adjusted (long-run) GNE growth is determined by the long-run rate of employment growth and the long-run rate of growth of labour productivity. Employment growth, following the usual long-run assumption, is considered to be determined by natural population increase, net immigration, growth in labour force participation, and the long-run evolution of unemployment rates.

The population growth and participation rate assumptions and projections used in Canada's Economy resulted in a projected long-run growth rate of the labour force and employment which declined from an annual average of 2.3 per cent over the period 1976-1981 to a yearly average of 1.1 per cent by 1990-1995. The average employment growth over the entire period, 1976-1995, was projected to be 1.6 per cent per year. Aggregate labour productivity was projected to increase by 2.0 per cent per year on a cyclically-adjusted basis. Combining employment and productivity projections, the cyclically-adjusted GNE growth rate was projected to decline from 4.4 per cent per year during the period 1976-1981, to 3.1 per cent by 1990-1995. The average rate from 1976 to 1995 was 3.6 per cent per annum. While these GNE growth rates are lower than those which Canada experienced over much of the postwar period, they remain high relative to those projected for other industrialized countries.

During 1978, some of the basic variables underlying the long-run growth projections summarized above have not turned out quite as assumed. Some additional analysis has also been undertaken. In light of this, it is worth reviewing the original long-term assumptions underlying the growth projections in Canada's Economy, and to assess, at least in a preliminary way, whether these projections need to be substantially revised.



## 2.1 Natural Population Growth

In the long run the rate of growth of the working-age population is a key determinant of employment growth. There are two sources of working-age population growth - growth resulting from the natural increase of the population, and net immigration of persons of working age.

Since persons who have been born over the past 15 years will represent the natural increase in the working-age population over the next 15 years, this part of working-age population growth to the early 1990s is known with virtual certainty. Natural increases in the population after 1978 will begin to affect working-age population growth only after 1993.

The projection of the natural growth of the total population depends most upon the projection of the total fertility rate. Canada's fertility rate dropped from a high of 3.9 in 1959 to 1.83 in 1976. Canada's Economy assumed a fertility rate of 1.8 over the projection period. Although the 1977 rate fell below 1.8, to 1.74, it seems unlikely that fertility rates will depart significantly from the patterns assumed in Canada's Economy at least for the next four to five years. The estimates of the natural increase in Canada's working-age population underlying the projections given in Canada's Economy continue, therefore, to be valid.

## 2.2 Net Immigration

The second source of growth in the working-age population, net immigration, is more difficult to project than is growth stemming from natural increase. Historically, gross immigration to Canada has reflected a number of factors: cyclical movements of the Canadian economy which cause the attractiveness of Canada, as perceived by prospective immigrants, to vary; changes in immigration policy and the regulations which give effect to the policy; and external crises which produce large movements of refugees. Emigration from Canada has reflected not only the relative attractiveness of other countries, but also the volume of immigration to Canada, since a significant proportion of emigration from Canada is return migration. Net immigration flows are thus the outcome of the interaction of a variety of circumstances and factors.

From 1946 to 1976 net immigration to Canada averaged about 82,000 persons annually. Canada's Economy assumed annual net immigration of 100,000 to 1995, made up of average gross immigration of 160,000 and average emigration of 60,000. Since the mid 1970s, however, net immigration has fallen steadily and sharply, with estimated net immigration for the year June 1977 to May 1978 being only 35,000. These declines in net immigration have reflected a commensurate decline in gross immigration. Some of this decline is probably related to the current slow growth of the economy. Much of it, however, is attributable to the tightening of the immigration regulations in the mid 1970s, the total impact of which has taken some time to be felt.



Under the provisions of the Immigration Act of 1976, the federal government is required to determine and announce targets for future levels of immigration. The government has recently announced a target level for gross immigration of 100,000 for 1979. In addition, it has stated that it believes that gross immigration should not fall below this level over the longer term.

Gross immigration at the 100,000 per year level would imply much lower levels of net immigration than were assumed in Canada's Economy. In light of stated government policy and recent immigration trends, net immigration levels of 50,000 per year on average now appear to be more realistic. Such a reduction in projected net immigration levels would by itself imply a reduction in the growth of the working-age population over the long run, and thus a reduction in the growth of cyclically-adjusted GNE.

### 2.3 Participation Rates

The forces which determine the extent to which individuals of working age participate in the labour force vary substantially across age and sex groups. Projections of participation rates must attempt to take into account a wide range of long-run economic and social forces: for example, the impact of changing pension benefits; the future course of secondary and post-secondary school enrolments; the future course of fertility rates; the relationship between fertility rates and female participation rates; the degree to which a variety of attitudes and opportunities will continue to foster growth in female participation; and many others. In addition, short-run cyclical factors, such as the response to unemployment being experienced by other members of the family, or the response to the pressures on family incomes of unexpectedly high rates of inflation, can cause significant short-run fluctuations of participation rates around long-run trends. The range and complexity of the factors which must be considered make the task of projecting participation rates extremely difficult.

Canada's Economy projected that the long-run participation rate would continue to rise slowly until the mid 1980s, and then tend to stabilize over the following 10 years. Male participation rates were projected to decline slowly throughout the period, while female rates were expected to continue to rise, although at slower rates than had been recorded in the early 1970s. The projected flattening out of the aggregate participation rate after the mid 1980s reflected the effect of a shifting age structure of the working-age population, rather than a cessation of the growth of participation rates in each age-sex group.

The projected 1978 participation rate for adult males is very close to the value which will likely be recorded for the year. The projections are also reasonably close for youths. The projected 1978 participation rate for adult women, however, is likely to be significantly too low. The adult female participation rate for 1978 is now expected to be close to 44 per cent, dramatically higher than the 1977 rate of 41.9 per cent. The 1978 adult female rate projected in Canada's Economy was in the 42 to 43 per cent range.

This unexpected surge in the adult female participation rate is the main factor behind the jump in the aggregate rate from 61.5 per cent in 1977 to an expected level of about 62.5 per cent this year. Indeed, the 1978 participation rate is now expected to be higher than the rate projected for 1981 in Canada's Economy.

The behaviour of the adult female participation rate in 1978 may in part reflect short-term responses to unexpectedly high rates of inflation and to continuing high rates of unemployment. It may also indicate that the strong secular growth in the participation rate of women, which has characterized the postwar period, is not in the process of easing. If this is the case, then the participation rate growth projections of Canada's Economy will be too low.

In this regard, it is worthwhile to compare the Canadian experience with that of the United States. Canadian participation rates often reflect the same forces, and move in the same way, as American participation rates. American unemployment rates have dropped steadily since the mid-1970s recession, while the American inflation rate has been lower than Canada's. Despite this, between 1974 and 1977, the participation rate of adult women in the U.S. grew significantly more rapidly than at any other time over the past 15 years. The cyclical improvement in the U.S. economy has probably reduced the economic pressures which would tend to push more secondary workers into the labour force. Consequently, the large increases in female participation rates in the U.S. may be more reflective of long-term forces. The recent surge in the participation rate of Canadian women may thus in part reflect a general North American phenomenon, as well as a response to cyclical factors.

It is clear that more analysis of the factors determining female participation rates is required. It also seems likely that the projections in Canada's Economy have underestimated to some extent the future growth of female, and hence aggregate, participation rates. Revision of these projections would result in an upward revision of projected long-run labour force growth and long-run GNE growth. This would tend to offset the depressing effect on labour force and GNE growth of the downward revision of net immigration projections discussed above. The net effect of these opposite movements, however, may be small.

## 2.4 Productivity Growth

Projected employment growth, when combined with a projection of long-run growth in aggregate output per worker, yields the estimated longer-run growth of GNE for the economy. In the past, growth in aggregate output per worker, or labour productivity, has resulted from the interaction of a number of factors: for example, technological change; increases in the amount of physical capital per worker; employment shifts from low productivity to high productivity industries; the growing size of markets; and improvements in the quantity and quality of education and training available to the labour force.

Projection of future labour productivity growth is difficult because of the complexity of the forces which interact to generate productivity



growth. Particular difficulties are introduced because of the existence of new factors - for example, the much higher energy prices since the 1973-1974 period, other higher resource costs, and a variety of pollution abatement requirements - which were not operative during most of the period from which estimates of Canada's historical trend rate of productivity growth must be calculated. These difficulties notwithstanding, it is possible to make some judgements as to the directions of the impact on labour productivity growth of a number of important factors.

It has been suggested that the shifting composition of the work force towards an increasing share of secondary workers - women of all ages, and men other than those in the 25 to 64 year age group - is a factor which tends to reduce aggregate productivity growth. Women are held to be less productive than men, while youths are assumed to be less productive than adults. This argument has often been used as a partial explanation of the sharp drop in the trend rate of productivity growth after the mid 1960s in the United States. Some observers have asked whether the same phenomenon may have affected Canadian productivity growth in the past, or will do so in the future.

There are a number of reasons for believing that the shift in labour force composition has probably not materially affected Canadian productivity growth in the past, and probably will not do so over the long term. First, there is no good reason to believe that women are less productive in the modern work environment than men. The fact that women earn lower average wages and salaries than men is often cited as evidence that they are less productive. It is more likely, however, that the lower employment earnings of women are attributable to their concentration in industries in which total productivity is lower than average, as well as to a certain amount of wage and salary discrimination against women.

Second, the share of women in Canada's labour force has risen steadily from the mid 1950s to the early 1970s. Over part of this period the youth share of the labour force also rose. Despite the rising shares of women and youths in the labour force, the trend rate of growth of labour productivity rose slightly over this period, from 2.1 per cent per year during the period 1956-1966, to 2.3 per cent annually from 1966 to 1973<sup>1</sup>. It would appear, therefore, either that the depressing effects on labour productivity growth of these trends have not been large, or that other forces were operating to substantially offset them.

Third, while there is substantial evidence to suggest that youths are on average less productive than adults, the share of the Canadian labour force accounted for by young people is projected to drop from the early 1980s to 1995. To the extent that a rising proportion of youths in the labour force worked in the direction of reducing productivity growth in the past, a falling youth share should have the effect of increasing the future rate of productivity growth.

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<sup>1</sup> 1956, 1966 and 1973 were peak years of economic activity in Canada. Measurement of average productivity growth between peak years is one method of estimating trend productivity growth.

Another argument often made is that the shift in the industrial structure of employment, from goods-producing to services-producing industries, has a depressing effect on productivity growth, since productivity grows more slowly in the service sector. Canada's Economy showed that this has not been the case in Canada since the mid 1950s. There was little change between the periods 1956-1966 and 1966-1973 in the rate of productivity growth in the commercial goods-producing sector. Between the two periods, however, the average annual growth rate of productivity in the commercial services sector doubled, from 1.2 per cent in 1956-1966 to 2.4 per cent in 1966-1973. This acceleration of service sector productivity growth offset the depressing effect on aggregate productivity growth of the shift in employment towards the service sector between these two periods. Labour productivity in all commercial industries grew on average by 3.0 per cent annually in the period 1956-1966 and 3.3 per cent per year in the 1966-1973 period.

There may well be a good deal of scope for future productivity gains in the economy's service sector. To the extent that such gains are realized, they will help to offset the impact on aggregate productivity growth of continued employment shifts to the service sector. The historical experience in Canada shows that it would be invalid to conclude that a rising share of service sector employment in the future necessarily implies declining rates of aggregate productivity growth.

The rapid growth of the capital stock over the postwar period has been a very important factor contributing to the growth of output per worker. Concern has been expressed that the recent and present low rates of capital formation will have a depressing effect on future productivity growth. However, the current relatively weak performance of investment reflects primarily unused capacity in the Canadian economy. Rates of capacity utilization are now increasing. Renewed strength in investment should in turn be forthcoming as effective capacity limits are approached. Thus, a return to moderately strong and sustained rates of growth of aggregate demand should stimulate capital formation, which in turn should contribute towards increasing labour productivity.

On the basis of the analysis thus far, there would be no reason to project a future rate of long-run productivity growth lower than that which has obtained in the past (2.2 per cent per year over the period 1956-1973). However, Canada's Economy noted that the effect on productivity of the 1973-1974 relative price increase of energy was not yet clear. The results of studies done up to the time that Canada's Economy was published did not warrant the conclusion that productivity growth had been significantly lowered by the energy price increase. Further work on this issue was required.

A more thorough analysis of the effects of higher energy prices on the long-run growth potential of the Canadian economy is now available in a technical paper prepared by the Department of Finance.<sup>1</sup> While for some

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<sup>1</sup> The Effect of Higher Energy Prices on Long-Run Growth, Department of Finance, November, 1978.



aspects of the problem more work is needed, or more time is necessary for certain trends to become evident before definitive answers can be given, some general conclusions can now be reached.

Because Canada was a net energy exporter, the increase in international energy prices which occurred in the first half of the 1970s conferred immediate terms of trade gains on Canada. The effect of the terms of trade gains was to raise the economic well-being of the country by increasing the income available for investment and consumption spending. A country which was a net energy importer at the time (e.g., the United States) suffered terms of trade losses and experienced a reduction in income available for domestic expenditures.

The distinction between income and real GNE is critical to assessing the effects of higher energy prices on the growth potential of the economy. To see this, it is necessary to analyze the impacts of the higher energy prices on both the energy and non-energy sectors of the economy.

As a general proposition one would expect an economy to have a production technology which would permit some substitution of capital and labour for energy, in response to the higher energy prices. For an economy operating at potential, with resources fully utilized, the initial effect of higher energy prices would be for the non-energy sector to use less energy and produce less output. As well, income would fall in the non-energy sector because of the adverse terms of trade effects for this sector. For the energy sector, production could be maintained at previous levels and, therefore, output or real GNE would not fall. Energy output could be maintained provided the amount of energy produced but no longer demanded by the domestic non-energy sector were exported. Because of the terms of trade gains, income in the energy sector would rise by the amount of energy production times the price increase.

The results of this analysis suggest that the increase in energy prices had mixed effects on the growth potential of the Canadian economy in the period 1973-1977. Because of the terms of trade gains Canadian incomes rose. However, because of the higher cost of energy potential real GNE tended to fall.

The size of the decline since 1973 in potential GNE growth (and, consequently, in productivity growth) resulting from the energy price increase should not be exaggerated. Because the substitution away from energy in the production process is likely to take several years, the resulting annual decline in trend productivity growth should not be large. Canada's Economy assumed future long-run productivity growth of 2 per cent per year, rather than the 2.2 per cent growth of the historical period. The 0.2 per cent annual reduction in long-run productivity growth which this conservative assumption implied may well be sufficient to capture the initial depressing effect on long-run productivity growth of the energy price increase.

Over the longer term the effects of the higher energy prices on potential GNE are less clear for two reasons. First, because of the rise in real

incomes of Canadians it is possible that savings and capital formation may rise and offset the initial depressing effect of the energy price increase on potential real GNE. In practice, such secondary effects are likely to occur over a fairly long period of time.

Second, in the long run the effect on Canada of higher energy prices will depend on the shape of the supply curve of domestically-produced energy. If incremental energy production to meet domestic requirements cannot be economically produced, Canada will become a net energy importer and will suffer terms of trade losses if the higher relative price of energy is maintained. To the extent that domestic energy production can expand, the terms of trade losses can be reduced. However, if this expansion of domestic energy production takes place along a rising energy cost curve, there will be adverse effects on long-run productivity, income, and GNE.

The evidence on Canada's supply curve of energy is not clear. There are currently a number of higher-cost energy projects under way or being considered but, at the same time, there appears to be a substantially greater availability of lower-cost oil and natural gas. Whether Canada has fully exploited its lower-cost energy resources is not resolved at this point and, therefore, it is difficult to be specific about the shape of the energy supply curve. Consequently, the quantitative significance of the depressing effect of higher energy prices on Canada's long-run income and output path is not clear.

There are other factors affecting long-run productivity growth with which this discussion has not dealt. In a number of areas - for example, in the case of the impact of pollution control requirements - much work needs to be done before conclusions can be advanced. Until such work is completed, the conclusion in Canada's Economy, that trend productivity can be projected to grow at 2.0 per cent annually, will remain tentative. By the same token, however, there is at present no available evidence that suggests that future productivity growth should be expected to depart radically from past trends.

## 2.5 Summary

This section has reviewed the main assumptions underlying the long-run economic growth projection presented last February in Canada's Economy, in the light of recent trends and new evidence in some areas. It appears as though participation rates may increase somewhat more quickly than had been anticipated in Canada's Economy. The positive impact of higher participation rates on long-run growth may be offset to a large extent by lower working-age population growth resulting from lower net immigration than had originally been projected. There does not appear at this time to be sufficient evidence to suggest that the productivity growth assumptions of Canada's Economy should be changed. On balance, taking offsetting influences into account, the long-run growth projection of Canada's Economy remains a good guide to Canada's long-run economic growth prospects.

### 3. THE MEDIUM-TERM RECOVERY IN CANADA'S ECONOMY - A REVIEW

After examining Canada's long-run growth potential, Canada's Economy described a medium-term recovery path which would move the economy closer to potential levels of output by 1981. Along this recovery path, real GNE was envisaged to grow at an average rate of 5.5 per cent over the period 1978-1981. This growth was expected to lead to a fall in the unemployment rate to below 6 per cent by the end of 1981. A reduction in the rate of inflation to levels experienced in the 1960s was regarded as a necessary condition for the achievement of a sustained recovery. The projections implied, therefore, a commitment to a simultaneous reduction in inflation and unemployment rates. This represented an ambitious set of goals and not ones which would be easily achieved. In every previous postwar recovery a falling unemployment rate has been accompanied by some acceleration in the rate of inflation.

The demand profile set out in Canada's Economy was based on the view that the growth in output and employment over the medium term should come as much as possible from growth in the private sector. The projected recovery was dominated by a strong investment performance particularly in the energy field. Real exports were projected to grow faster than imports, thus providing a net stimulus to growth, with the current account deficit declining as a share of real GNE. As is noted below, this depended critically upon the medium-term growth prospects of Canada's trading partners, especially the U.S. Consumer spending was expected to play a critical role in initiating the recovery, and to be an important factor in sustaining it. Real government expenditures were projected to grow only slowly, at a rate well below the rate of growth of real GNE.

Restoration of price and wage stability was regarded as essential to the achievement of this expenditure profile for several reasons. First, the high rates of inflation experienced in the 1970s have contributed to raising the personal savings rate to levels reached only in one other previous period of double-digit inflation. The personal savings rate averaged 10.5 per cent for the three years, 1974-1976, compared to 5.3 per cent in 1970. A decline in the rate of inflation would lead to a reduction in the personal savings rate and provide stimulus to consumption growth, particularly in the early years of the recovery.

Second, there are important interactions between inflation and profits and, through profits, between inflation and investment. High rates of inflation raise nominal profits but lower real profits. Increases in the rate of inflation bring greater uncertainty and increases in the cost of capital. Thus, high rates of inflation lower the real rate of return, raise the cost of capital, and depress investment incentives. Lower rates of inflation have the opposite effects. A reduction in the rate of inflation over the medium term would tend to raise the real rate of return, lower the cost of capital, and encourage investment.



Third, a significant lowering of the inflation rate was regarded as critical to the achievement of an improved trade performance over the medium term. Beginning in 1975, current account deficits in excess of \$4 billion began to be experienced. Part of the increasing deficit was due to cyclical factors; the Canadian economy operated closer to capacity in 1974 and 1975 than did the economies of Canada's major trading partners. However, Canada's competitive position had also deteriorated significantly. Real wage growth had exceeded productivity growth since 1972. The loss in competitiveness was clear in particular manufacturing and processing industries. It was especially acute in the tourist industry, and together with cyclical factors resulted in a rapidly widening deficit on the travel balance.<sup>1</sup> A depreciation of the exchange rate would help to restore competitiveness; sole reliance on this mechanism to reduce the current account deficit could, however, jeopardize the inflation target and undermine the medium-term recovery. Because the projected recovery envisaged higher real growth for Canada than for major trading partners, the bringing of Canada's cost structure under control was regarded as critically essential if the foreign sector were to be a net contributor to growth.

Finally, an improved inflation performance, by providing support to private sector growth, would reduce the large burden already placed on government fiscal policy to stimulate the economy. Following the slow-down in growth which began in 1974, the fiscal position of the government sector moved into significant deficit, thereby cushioning the impact of slow growth. The deficit of the federal government was very large by historical standards, equivalent to 3.5 per cent of GNP in 1977 compared to 1 per cent in 1961. In contrast, the provincial/local/hospital sector was not only proportionally much larger than in 1961, but it also ran a deficit of only 0.1 per cent in 1977 compared to 1.1 per cent in 1961. At the same time, the development of the CPP/QPP meant that an additional fiscal drag, equivalent to 1.1 per cent of GNP, had been added to the system.

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<sup>1</sup> For a detailed discussion of the roles of cyclical and price factors in determining Canada's travel deficit see The Service Account of the Balance of Payments, Department of Finance, November 1978.



#### 4. CANADA'S RECENT INFLATION EXPERIENCE

In view of the importance of achieving a reduction in the rate of inflation over the medium term, it is worthwhile reviewing the factors which have contributed most significantly to Canada's recent high rates of inflation.<sup>1</sup>

In the long run, inflation is primarily a monetary phenomenon. Increases in the rate of growth of the money supply will eventually lead to corresponding increases in the rate of inflation. In the short and medium term, however, increases in the money supply do not translate into proportional increases in the rate of inflation, nor do decreases in the money supply necessarily imply proportional reductions in the rate of inflation. Because of this, trade-offs between inflation and unemployment will exist in both the short and medium term.

The short-term relationship between the unemployment rate and changes in wages depends fundamentally on the flexibility of real and money wages. There appears to be a fairly high degree of inflexibility of wage change to changes in unemployment. The empirical evidence for Canada indicates that at high rates of unemployment, further increases in the unemployment rate will in the short run have only a small effect on the rate of change of wages. At low rates of unemployment, however, the effect could be quite strong.

For many goods and services labour costs make up the largest part of total production costs and are the primary determinant of prices. Even in these cases, however, the relationship between labour costs and prices may be unstable and may change in response to other factors. There are, as well, many markets in which prices may be determined independently of wage behaviour; for example, in the case of agricultural products, demand factors and supply constraints may be more important than wage costs in determining prices. Government charges are also not closely related to underlying labour costs. Increases in the prices of internationally-traded commodities or changes in the exchange rate can also lead directly to higher rates of inflation. Price increases stemming from these sources contributed significantly to the higher inflation rates of the 1970s. It is thus possible to have rising rates of inflation, for a period of time, despite a deceleration in wage increases.

In the medium term the response of the rate of wage change to changes in the unemployment rate will depend not only on the degree of wage flexibility but also on the speed of adjustment of inflationary expectations to changes in the rate of inflation. It is not possible to state precisely how price expectations are formed. There seems little doubt, however, that they are influenced by past price behaviour. Further, inflation

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<sup>1</sup> For a more detailed discussion of issues relating to inflation, see Canada's Recent Inflation Experience, Department of Finance, November 1978.

expectations may be influenced by government policy initiatives. In other words, if individuals believe government policies will reduce price increases they may act as if the rate of inflation were going to fall.

In the period up to 1973 there were a number of domestic factors working towards worsening inflation. These included strong aggregate demand growth, which was partly the result of strongly expansive aggregate demand policies; increasing inflationary expectations; and rising public sector wages. Important structural changes were also occurring in the labour market during this period. The increasing participation rates of women and youth, the growth in multi-earner families, and the 1971 Unemployment Insurance Act revisions raised the level of the unemployment rate at which inflationary pressures were likely to emerge. These factors combined to generate a momentum leading to inflation rates in the 3 to 5 per cent range. In the absence of the external price shocks of 1973-1975, however, the inflation rate would not likely have reached double-digit levels, and most likely could have been contained by less expansive aggregate demand policies.

The major increases in food and energy prices which occurred after 1972 had an immediate and direct impact on the rate of inflation. This led subsequently to higher wage and salary demands, partly because of attempts to maintain real wages and salaries and partly because of expectations of future high rates of inflation. The result was a secondary wage-price spiral and further support for the inflation momentum.

The rate of change of wages and salaries has been declining steadily since 1975, partly because of the Anti-Inflation Program and partly because of high levels of unemployment. Consequently, the rate of increase of prices of goods for which domestic wage costs comprise the most important part of total costs has been declining, and significant gains have been made towards restoring Canada's international competitive position. However, the aggregate rate of inflation has not performed as well, except in 1976, because of large increases in food and energy prices and declines in the exchange rate.

Over the medium term a good food price performance and a more stable dollar, coupled with continued wage restraint in both the private and public sectors, would permit a sustained deceleration in the rate of inflation. In this regard, it will be very important that those price increases in 1978 which were essentially temporary in nature not be built into Canada's cost structure through fully offsetting wage and salary settlements.

## 5. SHORT-TERM DEVELOPMENTS AND MEDIUM-TERM PROSPECTS

### 5.1 Prices and Wages

The rate of growth of average wages and salaries (labour income per employed person) has decelerated sharply during 1978, falling below a 6.0 per cent annual rate in the second quarter. Although subsequent revisions to the national accounts will likely increase the estimated growth of wages and salaries they will not likely raise the growth rate to the 7.5 per cent rate projected in Canada's Economy for the current year. Wage settlement data for the third quarter also suggest that no major re-acceleration of average wage increases has occurred so far this year. The slowing rate of increase of average wages in 1978 is attributable to a number of factors, among them the continuing effects of the Anti-Inflation Program, and some increase in part-time employment, which has the effect of lowering average wages.

The significant decline in wage and salary advances has been matched by a fall in the rate of increase of prices of those goods and services for which labour costs comprise a predominant proportion of total costs. Over the first three quarters of 1978, the CPI excluding food has risen at annual rates of 6.9, 6.1 and 6.1 per cent, respectively. These are rates which would imply an annual rate of non-food price increase close to the 6.0 per cent target in the medium-term projections. The temporary reduction in provincial retail sales taxes last spring also contributed to the improvement in the underlying rate of inflation.

Despite this significant slowing in the underlying rate of inflation, the rate of increase of all consumer prices accelerated this year. In September prices were 8.6 per cent higher than they were a year ago. Unexpected food price increases have been an important factor in leading to this advance in the inflation rate. Food prices have risen at annual rates of 14.1, 16.5 and 17.6 per cent, respectively, through the first three quarters of the year. Large increases in the prices of beef (owing to the swing to the contractionary phase of the North American beef cycle) and fresh fruits and vegetables (due to poor winter harvests in the U.S. and only average size summer crops in Canada) have contributed most to the poor performance of food prices. The decline in the exchange rate also added to the increase in food prices.

With the acceleration of consumer price increases and the deceleration in the rate of wage and salary growth, average real wages and salaries have been falling in 1978. This has held back the growth of real consumption expenditures this year. It could also increase the difficulty of sustaining a deceleration in wage and price increases in the post-controls period. Efforts to recapture losses in real wages and salaries which have resulted from the unexpected and temporary surge in prices could lead to higher wage and salary demands. This in turn could trigger a renewed wage-price spiral.



The annual rate of increase of unit labour costs has declined significantly in the first two quarters of 1978. Unit labour costs are now rising at an annual rate close to that projected in Canada's Economy. This deceleration reflects the larger-than-anticipated decline in average wage and salary gains, offset by a lower-than-anticipated improvement in productivity.

A good food price performance together with restraint in wage and price increases would contribute to an improved inflation performance next year. Agreement to effect the proposed temporary pause in oil and gas price increases would be similarly helpful. Additional support will be provided by the reduction in the manufacturers' sales tax and unemployment insurance premiums announced in the recent budget. The combined effect of these forces would be a reduction in the inflation rate to about 6.5 per cent next year. This rate would, however, be somewhat higher than the rate projected for 1979 in Canada's Economy. It is all the more important, therefore, to strengthen the forces which would lead to further reductions in the rate of inflation in 1980 and beyond.

## 5.2 Output and Employment

The medium-term recovery path outlined in Canada's Economy was described in terms of an annual average rate of growth of 5.5 per cent over the period 1978-1981. This allowed for some variation from year to year in actual growth rates. If the economy were to grow by modestly less than the required average in the first year, this would imply only slightly stronger performance in the last three years. A larger shortfall of growth in 1978, however, would increase the difficulty of achieving the projected average growth over the whole 1978-1981 period.

The outlook for the economy in 1978 is for real growth of close to 4 per cent. Next year the real growth of the economy is expected to be in the 4 to 4.5 per cent range. A substantially higher rate of growth would be required in 1980 and 1981 to achieve an average growth rate of 5.5 per cent over the four year period. Such an acceleration of growth would not be inconsistent with the pattern of other postwar recoveries, but could run a real risk of creating renewed inflationary pressures. The basic objective of achieving sustainable growth may best be served, therefore, by reaching the long-term growth line a year or so after 1981. It is difficult to be precise on this point, given the continuing uncertainties in the economic environment and the fact that the estimates of Canada's recent performance are still preliminary and subject to revision. The pattern of recovery set forth in Canada's Economy still appears, therefore, to be a useful guide to the development of a medium-term strategy, even though the period of recovery may be a year or two longer than envisaged.

Employment growth has been extremely strong this year. On average in the first 10 months of 1978, 333,000 more persons were employed than in the corresponding period of 1977. This represents an increase of 3.4 per cent, well above the 2.8 per cent average employment growth projected along the recovery path in Canada's Economy. At the same time, however, for reasons noted earlier, the labour force has grown more rapidly, and thus the unemployment rate has not declined.



Next year employment growth seems likely to be more in line with the average growth projected for the 1978-1981 period. Labour force projections, however, are more difficult to make. As was discussed in section 2, the participation rate has risen dramatically in 1978, primarily because of the large increase in the adult female participation rate. The participation rate of adult women fell in October, for the first time in over 12 months. This could be an indication of some easing of the recent rapid influx of women into the labour force. This possibility notwithstanding, it seems likely that the adult female participation rate, and consequently the aggregate rate, will be higher over the medium term than projected previously.

Lower-than-projected GNE growth for 1978, coupled with higher-than-anticipated employment growth, implies a rate of growth of labour productivity below the average along the medium-term recovery path. This lagging productivity performance is to some extent a reflection of the slow growth of the economy in 1978. There is no available evidence to suggest that a higher rate of real growth would not be matched by significant improvement in the rate of growth of productivity.

### 5.3 Expenditure Components

The projected medium-term recovery path in Canada's Economy was characterized by increasing strength in investment and net exports. Because of a relatively small capital stock gap in 1977, and the under-utilization of existing capacity, investment growth was not expected to contribute significantly to output growth in 1978. Net exports were expected to add increasingly to growth as the Canadian competitive position improved steadily over the medium term. Consumer expenditures were projected to grow at about the same rate as real GNE over the entire 1978-1981 period, but to contribute significantly towards initiating the recovery with strong growth in 1978 and 1979.

The strong growth in consumer expenditures necessary to assist in initiating the recovery has not been fully achieved in 1978. Real consumption expenditures are expected to grow this year by only 3.5 to 4 per cent. Canada's Economy expected that a decline in personal savings rates, associated with a deceleration in inflation, would provide some support to consumption growth in 1978. Instead, inflation has accelerated and the savings rate is expected to remain at its high 1977 level. Real wages and salaries have also been declining this year. Although personal disposable income will grow more quickly than personal income this year, the differential will not be large enough to provide the impetus to consumption growth needed for the attainment of the projected performance. With an improved inflation performance over the next two to three years a decline in the savings rate can be expected. This would provide support to consumption growth over the medium term.

Because of their commitments to expenditure restraint, the federal government and some provincial governments will be holding expenditure growth to less than the growth of output this year. The federal government's restraint program has significantly reduced the growth of its expenditures on goods and services. Interest on the public debt and transfers to individuals will increase more rapidly this year than expenditures on

goods and services. Expenditure restraint will also be reflected in slower growth in capital expenditures than that projected in Canada's Economy. Expenditure restraint will continue to be an objective of the federal government over the medium term.

Canada's Economy did not expect investment growth to play a strong role in initiating the recovery. As expected, investment growth will be modest in 1978. However, the decline in the exchange rate and the improvement in the underlying cost structure of the economy have provided new opportunities to many industries. Some renewed strength in investment expenditures can be expected next year. The October investment intentions survey of 300 large firms showed that these firms plan to increase their fixed investment by 16 per cent in current dollar terms in 1979. This represents a growth in real investment expenditures for these firms of about 8 per cent. Growth in real investment outlays for the economy as a whole is anticipated to range between 3 and 5 per cent in 1979, and to continue to strengthen over the medium term.

Energy investment was projected to play a central role in supporting the medium-term recovery. Over the four-year period 1978-1981, energy investment was projected to grow on average by over 14 per cent per year in real terms. The bulk of this investment was expected to materialize in the later years of the recovery. There are some indications that energy investment in the period to 1981 may be slightly less than was assumed. Because of the long lead times in initiating and completing energy projects, some of the energy investment originally expected to occur before 1981 is now likely to take place later on in the 1980s. Despite this difference in timing, energy investment will continue to play an important role in Canada's economic development over the medium and longer term.

The lag in investment performance in 1978 has been offset by the strong performance of net exports. The depreciation of the Canadian dollar has had a dramatic effect on Canada's trade. The volume of merchandise exports will grow by about 8 per cent in 1978, while the volume of merchandise imports will increase by about 4 per cent. The trade surplus will rise to a record level of close to \$4 billion in current dollars this year. The total current account deficit, in current dollars, will rise this year, because of the continued growth of the service account deficit. However, the rapid growth of merchandise exports and the slow growth of merchandise imports will be the main factors behind a significant improvement in the constant dollar current account deficit. The improved foreign balance expressed in volume terms will contribute substantially to real aggregate growth in 1978.

The medium-term outlook for Canada's foreign balance is dependent upon the relative strengths of two sets of forces which will work in opposite directions. Slower growth than was projected in Canada's Economy is now forecast for Canada's major trading partners. However, the impact of slower growth in the U.S. and other areas could be outweighed by the competitive gains that have been provided to Canadian industries through improved cost performance and the depreciation of the Canadian dollar. An average exchange rate below the \$.93 U.S. assumed in Canada's Economy now seems likely for the medium term. It is imperative that these competitive gains not be lost through the re-emergence of accelerating wage and price inflation.



## 6. SECTORAL DEVELOPMENTS

1978 was a year which saw many sectors in the economy beginning to rebuild their work forces in response to emerging opportunities and renewed growth. Table 1 provides the percentage increase in average employment in 1977 and for the first ten months of 1978. During the first ten months of 1978, total employment was 3.4 per cent higher than in the same period in 1977. A substantial turnaround has occurred in the goods-producing industries. Employment in these industries rose by 2.5 per cent in the first ten months of this year compared to a decline of 1 per cent in 1977. The service industries have continued to provide strong support to total employment growth.

Table 1

Rates of Growth of  
Employment by Industry, 1977 and 1978<sup>(1)</sup>

	1977	1978
All Industries	1.9	3.4
Goods Producing Industries	-1.0	2.5
Agriculture	-1.3	1.3
Forestry, Fishing and Trapping	-1.1	10.9
Mines Quarries and Oilwells	4.8	5.3
Construction	-0.2	-0.8
Manufacturing	-1.6	3.2
Service Producing Industries	3.4	3.9
Transportation, Communication, and Other		
Utilities	-0.6	4.5
Trade	2.2	3.6
Finance, Insurance and Real Estate	7.2	3.2
Community, Business and Personal Services	4.8	4.7
Public Administration	3.2	1.5

(1) 1978 growth rates are based on average employment in the first ten months of 1977 and 1978.

Source: Statistics Canada, The Labour Force, Cat. 71-001.

In recent years, concern has been expressed over the prospects for a number of sectors of the Canadian economy, in particular some of the goods-producing industries, and the tourism sector. It will be helpful, therefore, to review briefly the performance of some of these sectors in 1978 as a backdrop to developments which are likely to occur over

the medium term and contribute to the overall expansion path projected into the early 1980s.

### Manufacturing

Much of the 1978 employment growth in the goods-producing industries has been in manufacturing, where 62,000 more jobs have been created so far this year. This accounts for about three-quarters of the increase in employment in all goods-producing industries. Manufacturing industries have benefitted from the decline in the exchange rate, increased domestic demand, and the winding down in the rate of growth of unit labour costs. Manufacturing output during the first eight months of this year was 5.6 per cent above the level for the same period a year earlier. During the second quarter - the latest period for which data are available - capacity utilization in manufacturing rose 2.1 percentage points to 86.4 per cent. This utilization rate is above the 1961-1977 average and is the highest level reached since late 1974.

This growth in manufacturing has been fairly widespread. The paper and allied products industry has recorded one of the strongest rates of growth. The volume of newsprint exports has risen rapidly this year, and newsprint production is at capacity levels. The international market for wood pulp appears to be strengthening as the previously large world inventories of pulpwood are being reduced. Among other non-durable goods industries, knitting, clothing, textiles and leather have grown quite strongly, partly as a result of import quotas and the temporary reductions (or elimination) of provincial retail sales taxes. The food and beverage industry has shown strength in Alberta and Quebec, and in the Atlantic provinces where fish catches have increased strongly. In the Prairie provinces, however, labour disputes earlier this year in the meat-packing plants adversely affected output.

Among the durable goods manufacturing industries, the transportation equipment industry in general, and the automobile industry in particular, have operated this year at high rates of capacity utilization, after growing strongly in the previous two years. In the automobile industry major investments are underway. Wood production has continued to grow strongly this year, as a result of both the previous strength in domestic housing starts and strong growth in lumber exports particularly to the United States. Output of the primary metals industry grew by 8.1 per cent in 1977 and by over 7 per cent in the first eight months of 1978, but capacity utilization is still below the 1961-77 average rate. Output in the furniture, metal fabricating, and machinery industries has increased sharply this year, after having shown either no growth or declines in the previous year.

The decline in the exchange rate and the significant slowing down of the growth of unit labour costs have provided manufacturing industries with the basis for expansion and sustained growth over the medium term. With somewhat slower growth now expected in the U.S. economy, labour and business will have to work together to ensure that the manufacturing sector's improved competitive position is maintained and strengthened. The work of the 23 industry task forces over the last several months and the Second Tier Committee Report have contributed significantly to a



better understanding of the problems and opportunities of many sub-sectors of manufacturing. The tax incentives included in the November budget will assist manufacturing firms to improve efficiency and expand capacity.

### Energy

Energy has been a special focus of attention over the past few years. Higher world oil prices, and the need to ensure greater security of supply, have presented challenges for all consuming nations, including Canada. Unlike most industrialized countries, however, Canada's relatively rich resource endowment has allowed Canada to cushion the shock by phasing in higher prices gradually and has provided the basis for new energy sector investment.

Canada's energy sector has been extremely buoyant in 1978. While physical output was relatively stable, revenues were up substantially. Moreover, higher prices and generous federal and provincial fiscal incentives have stimulated record levels of industry investment. For example, oil and gas exploration expenditures in 1978, at about \$8 billion, are double their 1975 level. The industry's forecast for 1979 is about \$10 billion.

During the 1960s, capital expenditures in the energy industries in Canada averaged about 15 per cent of total capital expenditures. In the 1970s this share has increased significantly, to about 20 per cent in 1977 and 1978. The average annual rate of increase (1974 to 1978) was about 22 per cent for electric utilities and the crude petroleum and natural gas industry, and 30 per cent for coal and uranium mining. These much higher levels of investment have had a favourable impact on Canada's energy supply outlook. This may be seen by comparing the most recent assessment of Canada's major energy sources with earlier assessments.

The National Energy Board's 1977 Report on oil supply forecast that shipments of domestic oil to Montreal would remain at 250,000 barrels per day until 1982 and that, in 1983, the Sarnia/Montreal pipeline would be reversed, and imported oil would have fallen to 20 Mb/d in 1979, to 1 Mb/d in 1980 and to zero thereafter. The 1978 Report concludes, however, that domestic oil shipments to Montreal can continue to at least 1995. Over the medium term, to 1983, the NEB notes that throughput of the Sarnia/Montreal pipeline could be increased to 315 Mb/d for three years.

The economic implications of these changes can be better appreciated by noting the "trade effects" of the revised forecast in the NEB's 1978 Report. By exporting somewhat more and importing considerably less than was anticipated in the 1977 Report, Canada's trade position on oil would be improved by about \$600 million (in 1978 dollars) in 1979. In 1980, the improvement could be \$730 million, and in 1981, \$835 million, for a three year total of about \$2.2 billion. Over the NEB's forecast period, to 1995, the total improvement could be in the neighbourhood of \$45 billion.

The prospects for Canada's natural gas supplies are also improving. The NEB hearings on natural gas supply and demand are still underway, and the Board's report is not expected until early next year. Evidence which has been submitted by industry as well as provincial agencies in preparation for the hearings indicates a substantial gas surplus. This is a pleasant contrast with forecasts made in 1975 and 1977, suggesting that Canada would not be able to meet domestic demands and existing export commitments by the late 1970s.

Canada's uranium mining industry is working at capacity. Exploration is proceeding at record levels, and a number of major finds have been reported. Indications are that Canada will be able to satisfy increased export demands, under a system which ensures the long-term protection of domestic requirements.

Conservation efforts by Canadians have resulted in lower domestic demand for electricity than had been anticipated. The result has been a significant increase in the surplus in several provinces available for export in 1977 and 1978. Furthermore, lower demand growth should permit utilities to spread out future additions to generating capacity.

Promising developments are also taking place in the coal industry. With the completion of loading facilities at the Lakehead, major shipments of western Canadian coal to Ontario Hydro are now beginning. This will provide the province with an important alternative to imports. A continuing program of modernization in the Maritime coal-fields promises to improve the competitive position of that region's output. In the west, the reserve base exists to respond in a major way to demand, here and abroad, for thermal and metallurgical coal.

### Minerals

The recent performance of the Canadian mineral industry has been mixed. Nearly one-half of Canada's mineral production is exported, and the health of Canada's industry therefore depends heavily upon developments in the world economy. While some minerals have enjoyed relatively buoyant demand, others - notably the base metals - have felt the impact of the current weakness in the economies of Canada's major trading partners. The outlook for 1979 is not significantly different.

Copper, nickel and zinc continue to be affected by weak demand and low prices, while molybdenum and lead markets have remained strong in 1978. Nickel production is down substantially because of the current INCO strike and cut-backs in the industry. The near-term outlook ranges from good for molybdenum and lead, to moderately optimistic for copper and zinc. Prices for these two commodities have been increasing recently, and further increases may occur over the next two years, as world stocks are reduced and demand picks up. Nickel prices and demand may not show much improvement.

Iron ore production in 1978 is down substantially from 1977 levels, as a result of a four-and-a-half month shutdown of the Quebec-Labrador mines and shipping disruptions on the Great Lakes. In 1979, however, Canadian production should return to previous levels, despite the



scheduled closure of two mines in northern Ontario. Although the domestic market has remained relatively strong and is expected to grow in the near and medium term, shipments of iron ore to overseas markets are affected by market oversupply and weak prices.

The outlook for other minerals is generally more encouraging. The uranium industry continues to expand in Ontario and Saskatchewan, and 1978 production is substantially above 1977 levels. Exploration is proceeding in most provinces and success to date indicates the basis for several new mines in the 1980s. The potash sector has experienced slowly increasing prices and firm demand in 1978. This trend should continue. Capacity increases are planned at some mines in Saskatchewan, and a new potash mine is under construction in New Brunswick. Demand for asbestos is relatively stable at the moment, and, although inventories are high, the Canadian industry is operating at 85-90 per cent of capacity.

In looking toward the 1980s generalizations are difficult. The outlook for some commodities, including potash, uranium and asbestos, is encouraging, but for others, it is more uncertain. The fortunes of the base metals industry depend heavily on the level of industrial activity elsewhere. Indications are that world demand will rise at substantially lower levels than those experienced in the 1960s and early 1970s. At the same time, competition - especially from third world countries - is increasing, and it may be difficult to maintain Canada's historical share of world markets. Canada's mineral exporters, however, should benefit significantly from the current rate of exchange for the Canadian dollar.

The federal and provincial governments, in co-operation with the industry, have carried out intensive reviews this year of the current situation and the medium term outlook for the sector. The results to date are positive, at least in improving the atmosphere of consultation and coordination in such important areas as taxation. The federal government took the lead this month in improving the tax regime for mining. Some provinces are also examining their tax regimes with a view to enhancing the competitive position of the Canadian mining industry.

#### Agriculture and Fishing

1978 has been a relatively good year for Canadian farmers. Farm cash receipts are expected to total some \$11.5 billion this year, an increase of 13 per cent over the 1977 level. With farm costs about 8 per cent higher, 1978 farm net incomes will be substantially higher than in 1977. Incomes have improved in nearly all major commodity sectors, and in particular prices have been sharply higher in the livestock sector. Agricultural employment this year has been 1.3 per cent above the 1977 level.

This year's sharp increases in cash receipts and farm incomes are unlikely to be repeated in either 1979 or the following two years, although some growth is foreseen. In particular, beef prices should continue to rise, although somewhat less quickly than in 1978, as beef remains in relatively short supply into the early 1980s.

This year the government has been discussing with the provinces ways of implementing the Agricultural Development Strategy which forms a major part of the paper A Food Strategy for Canada, published in the summer of 1977. The discussions have focussed mainly on the harmonization of federal and provincial commodity stabilization programs. Variations in the levels of support from province to province can result in inefficient patterns of production, and the desirability of harmonization has been widely recognized. The federal government has now proposed to amend its own programs so as to give greater long-term support for a number of major commodities, provided the provinces agree to phase out their programs. The proposal has been accepted, in principle, by most of the provinces, and discussions are continuing.

The profitability of Canada's fishing industry, and levels of incomes of fishermen, are strongly dependent on the state of the fish stocks. In 1974 and 1975, the steady decline in catches resulting from overfishing, the decline in market prices, and unusually high operating costs resulted in heavy industry losses and depressed incomes. Since 1976, the upward trend in market prices, the depreciation in the Canadian dollar, and steady resource improvements have all contributed to a profitable fishing industry and increases in fishermen's incomes.

The extension of fisheries jurisdiction from 12 to 200 miles has laid the foundation for stock recovery and exploitation of these stocks by the Canadian fishery industry to gain their full economic potential. With effective offshore management programs and steady increases in the resource stocks, the economic benefits of the 200-mile limit are expected to be greatest on the East Coast. On the West Coast, substantial economic benefits are expected from a long-term federal investment program, developed in co-operation with the B.C. government and designed to more than double the annual production of Pacific salmonids. In total, it is expected that Canada's potential exports of fish products (which account for about two-thirds of our total production) could double between now and 1985.

### Tourism

The tourism industry is an important part of the economies of all regions. Because of this, the industry's poor performance in recent years has generated concern. The relatively weak performance of the industry resulted from a sharp decline in the number of travellers to Canada - 12 per cent between 1973 and 1976. Over the same period, the number of Canadians travelling abroad increased significantly. These developments were also reflected in the widening of Canada's travel deficit which increased from less than \$300 million prior to 1975 to \$1.2 billion in 1976 and \$1.7 billion in 1977.

The available evidence indicates that the rapid growth in the travel deficit was due for the most part to cyclical and price factors.<sup>1</sup> The slow growth in the world economy resulted in a relatively slow growth of disposable incomes and consumption expenditures abroad. At the same time, travel-related costs and prices in Canada increased significantly

<sup>1</sup>

The Service Account of the Balance of Payments, op. cit.



faster than did comparable prices abroad, thus undermining the competitiveness of the domestic tourist industry. In response to these price developments and the high value of the dollar between 1974 and 1976, foreign visitors were discouraged from travelling to Canada while Canadians found foreign destinations increasingly attractive.

Developments during the last two years have been more encouraging. Although the travel deficit widened further in 1977, the available evidence indicates that there was an improvement in the travel balance in constant prices with the U.S. This reflected both an increase in receipts and a much smaller increase in payments (in constant dollars) than in previous years. Two-thirds of the increase in the overall deficit on travel since 1974 resulted from the swing in the bilateral account with the U.S.

Available data for the first nine months of 1978 also show encouraging signs of improvement as the number of visitors from countries other than the U.S. increased by 18 per cent compared to the corresponding period of the preceding year. The number of visitors from the U.S. continued to decline but the decline was smaller than for any year since 1974. This continued decline may reflect uncertainty as to the strength of the U.S. recovery. On the other hand, the number of Canadians travelling abroad declined by 1.1 per cent, compared to average increases of 9.1 per cent in 1975-1976 and 5.7 per cent in 1977.

These developments indicate that the depreciation of the Canadian dollar which began in November 1976, is having an impact on the number of travellers to and from Canada. Over the medium term, the depreciation of the exchange rate coupled with a continued reduction in Canada's underlying rate of inflation will contribute significantly to improving the competitiveness and the performance of the Canadian tourist industry.

Measures aimed specifically at improving the competitiveness of the Canadian tourist industry can also be expected to contribute significantly to an improved performance over the medium term. In particular, the suspension of the sales tax on hotel rooms in Quebec and Ontario and measures to introduce or increase tip differentials in setting minimum wage levels in the same two provinces have improved the competitive position of the domestic tourist industry. Other measures include the promotion of attractive travel packages, for both Canadian and non-resident travellers.

## 7. POLICY IMPLICATIONS

In developing the medium-term recovery track, it was clear that policy actions by both federal and provincial governments would be required to help initiate the recovery and to create an environment which would sustain it. It was clear also that a wide range of policy instruments would have to be applied in a co-operative and mutually-reinforcing manner. This was seen to be needed to bring about a measured, non-inflationary expansion of effective demand. Governments acting in concert could also help in containing cost pressures in the economy, not only by making adjustments in taxation but also by maintaining a fair and equitable restraint in public sector incomes and prices.

At the same time, there has been increasing recognition of the importance of change and development in the overall structure of the Canadian economy, and of the need for government policies to facilitate structural change particularly over medium and longer-term periods. Structural policies in turn have been described as falling broadly within two frequently overlapping categories. First, there are those relating to the general framework affecting all or most sectors, including such areas as taxation, capital investment and capital markets, labour supply and the functioning of the labour market, energy supply and pricing, support for research and development, the tariff and international trading relationships, and the broad range of public regulation for myriad purposes. A second category is described as sector-specific, where public policy is directed at the particular circumstances obtaining in a very specific industrial sub-sector - for example, federal initiatives as regards the air-frame industry or the appliance industry in Canada.

At the broadest level of economic policy, a central proposition underlying the medium-term economic objectives was that the growth in output and employment over the medium term should come to the largest extent possible from growth in the private sector. The key to achieving the needed private sector growth over the medium term was a sustained reduction in the rate of inflation. It was recognized, however, that because of the under-utilization of existing capital, continued substantial fiscal stimulus would be needed in the early stages of the recovery. This in turn would involve some increase in the size of government deficits. With improvement in the rate of growth, and declining inflation, the degree of needed stimulus would be reduced, and the size of government deficits in relation to gross national product would decline over the medium term.

The flexibility available to the federal government to provide substantial fiscal stimulus has been reduced by the growth in its deficit in recent years. As was discussed earlier, the deficit of the federal government had risen to 3.5 per cent of GNP in 1977 compared to only

1.0 per cent in 1961. Part of the increase in the federal deficit was a reflection of slower revenue growth and higher growth for some expenditure categories as a result of the slow growth of the economy. A significant part was the result of continuous fiscal action initiated as early as 1974 to moderate the downturn in economic activity. With the further budget initiatives taken by the federal government since February, the deficit of the federal government is expected to rise as a percentage of GNP in 1978 but to decline in 1979. The provincial/local/hospital sector was proportionately much larger in relation to GNP and total public spending than it was in 1961, yet at the same time it was adding considerably less stimulus to the economy in 1977 than it had in 1961. Despite its more limited relative size in the public sector and more constrained leverage, the federal sector was nevertheless carrying a larger share of responsibility for sustaining growth in total demand.

Initiatives aimed at reducing inflationary pressures and providing short-term stimulus were introduced by a number of provinces in budgets earlier this year. In April, the federal and provincial governments acted together to reduce the provincial retail sales tax. These temporary reductions have now expired in a number of provinces but remain in place for longer periods in three provinces. In the November federal budget the manufacturers' sales tax was reduced from 12 per cent to 9 per cent. Both measures were designed to directly reduce inflationary pressures in the economy, while at the same time providing stimulus to growth in consumption expenditures, output and employment. Additional support to the achievement of reduced inflationary pressures was also provided by the cut in the special tax on gasoline last August, the reduction in unemployment insurance premiums and the increased employment expense deduction announced in the November budget. The proposed postponement of oil and gas price increases scheduled for January 1 would also help reduce inflationary pressures.

In line with the objective of supporting private sector growth, both federal and provincial levels of government have moved to restrain the growth of public expenditures. At the federal level this process began with the introduction of the Anti-Inflation Program and was continued with the budget last April and the expenditure restraint program announced by the Prime Minister on August 1. These reductions will ensure that the growth in federal expenditures remains considerably below the growth in GNP. This was the case for the previous two years 1976-1977 and 1977-1978.

Governments can do much to assist in the achievement of lower inflation rates but they alone cannot ensure success. To help in the transition to the post-controls period the Economic Council was asked by the February Conference to assume responsibility for analyzing price and cost developments for a limited period. This responsibility now rests with the Centre for the Study of Inflation and Productivity. The Centre has recently published its first reports and will be continuing to monitor price and cost developments in the economy. As well, the February Conference agreed on the general principle that growth in public sector compensation should not get out of line with compensation increases in the private sector. The recent introduction of Bill C-22 represents a commitment by the federal government to achieve this objective.



The policy of the Bank of Canada has for some time been aimed at gradually reducing the rate of inflation. Since 1975 the Bank has been setting explicit money growth targets, gradually lowering them over time, and keeping the rate of growth of the money supply within the target bands. Such a policy is necessary to ensure a continuing decline in the underlying rate of inflation and a restoration of price and wage stability in the longer term.

As regards the structural policy front, the division of responsibility and jurisdiction between the federal and provincial levels is immensely complicated, and interrelationships are unavoidably close and intimate. It can be seen that governments will have to work together to ensure that existing and proposed framework and sector-specific policies contribute, within their objectives, to the achievement of the broad aggregate economic objectives of the economy. Framework and sector-specific policies should improve the efficiency of the economic system and permit the private sector to respond to changes in its competitive environment.

A number of structural initiatives have been undertaken by the federal government. These will support the modernization and the expansion of plant capacity. Many of these initiatives are in response to the work of the 23 industry task forces which were established after the meeting of First Ministers last February. In the April and November budgets structural measures were introduced to support research and development. Initiatives were also taken in both budgets to increase and broaden the investment incentives to many industries, particularly the manufacturing, resource and primary goods industries. As well, as part of the expenditure restraint and reallocation program begun last August, the federal government provided funds to expand industrial support programs aimed at assisting industries to develop new technologies and markets.

Important steps have also been taken to ensure that the unemployment insurance system does not provide disincentives to work. As well manpower training programs are being restructured to ensure that training is provided in those skills for which there is a demand.

Continued progress in developing the structural policies that are necessary to support the medium-term recovery is seen as a major objective of continuing federal-provincial consultation across a very broad front. It will obviously require co-operation among all levels of government and the continued active participation and support of business and labour and other economic interest groups.



féderales-provinciales sur un large front. Cela nécessitera la coopération de tous les niveaux de gouvernements et la participation active et l'appui des milieux des affaires et du travail, et des autres groupes économiques intéressés.

Centre d'étude de l'inflation et de la productivité. Le Centre, qui vient de publier ses premiers rapports, continuera de suivre l'évolution des prix et des coûts dans l'économie. De plus, le principe général que les augmentations des traitements dans le secteur public ne devaient pas s'écarter des hausses de salaires dans le secteur privé a été accepté lors de la conférence de février. Le dépôt du projet de loi C-22 constitue un engagement de la part du gouvernement fédéral de réaliser cet objectif.

Depuis un certain temps, la Banque du Canada a pour objectif de réduire progressivement le taux d'inflation. Depuis 1975, elle a fixé des objectifs explicites d'expansion monétaire, qu'elle a abaissés graduellement, et a maintenu l'expansion monétaire dans le champ des objectifs. Cette politique est nécessaire à la réalisation d'une réduction soutenue du taux fondamental d'inflation et au rétablissement de la stabilité des prix et des salaires à long terme.

En ce qui concerne les politiques structurelles, la division des responsabilités et des compétences entre les gouvernements fédéral et provinciaux est très complexe, et les relations sont nécessairement proches et intimes. On peut voir que les gouvernements devront travailler ensemble de façon à assurer que les politiques sectorielles spécifiques et les politiques d'encadrement en place et proposées contribuent, dans le cadre de leurs objectifs, à la réalisation des objectifs globaux de l'économie. Les politiques sectorielles spécifiques et d'encadrement devraient améliorer l'efficacité économique et permettre au secteur privé de réagir aux changements de son milieu compétitif.

De telles initiatives structurelles ont été introduites par le gouvernement fédéral. Ces initiatives supporteront l'expansion et la modernisation de la capacité industrielle. Nombre de ces mesures font suite aux travaux des 23 groupes d'étude sectoriels créés après la conférence de février dernier des Premiers ministres. Les budgets d'avril et de novembre ont introduit des mesures structurelles favorisant la recherche et le développement. Ces budgets ont aussi introduit des mesures visant à accroître et élargir les stimulants à l'investissement dans de nombreux secteurs, en particulier, dans l'industrie manufacturière, l'exploitation des ressources et la production primaire de biens. Également, dans le cadre de son programme de restrictions et de réaffectations des dépenses amorcé en août, le gouvernement fédéral a renforcé les programmes visant à aider l'industrie à développer des techniques et des marchés nouveaux.

Des actions importantes ont aussi été prises en vue d'assurer que la Loi de l'assurance-chômage ne mine pas l'incitation à travailler. Les programmes de formation de la main-d'œuvre ont aussi été adaptés en vue de satisfaire les besoins là où il y a pénurie de main-d'œuvre qualifiée.

La réalisation de progrès soutenus dans le développement des politiques structurelles nécessaires au soutien de la reprise à moyen terme apparaît comme un objectif majeur du processus continu de consultations

fiscale de l'économie. Ainsi qu'on l'a mentionné précédemment, le déficit fédéral s'élevait à 3,5 p. cent du PNB en 1977 contre 1 p. cent en 1961. Une partie de l'élargissement du déficit fédéral reflétait une augmentation moins rapide des recettes et une élévation plus forte de certaines dépenses, en raison du ralentissement de l'économie. Une partie importante était le résultat de l'action fiscale continue instituée dès 1974 pour atténuer la baisse de l'activité économique. Etant donné les initiatives budgétaires additionnelles prises par le gouvernement fédéral depuis février, le déficit du gouvernement fédéral devrait s'accroître en proportion du PNB en 1978 mais diminuer en 1979. Bien que le secteur provincial/municipal/hospitalier soit beaucoup plus grand qu'il ne l'était en 1961, par rapport au PNB et aux dépenses publiques globales, il contribuait moins à la stimulation de l'économie en 1977 qu'en 1961. En dépit de la diminution de sa part relative du secteur public et de sa commande plus restreinte, le secteur fédéral supportait néanmoins une part plus grande de la responsabilité du soutien de la croissance de la demande globale.

Des mesures visant à réduire les tensions inflationnistes et à stimuler l'économie à court terme ont été introduites par certaines provinces dans des budgets déposés plus tôt cette année. En avril, les gouvernements fédéral et provinciaux ont entrepris, de concert, de réduire la taxe provinciale sur les ventes au détail. Ces réductions temporaires viennent d'expirer dans un certain nombre de provinces mais restent en place pour des périodes plus longues dans trois provinces. Le budget fédéral de novembre a réduit de 12 à 9 p. cent la taxe sur les ventes des fabricants. Les deux mesures ont été conçues en vue d'atténuer directement les tensions inflationnistes dans l'économie, tout en stimulant la croissance de la consommation, de la production et de l'emploi. Une action supplémentaire a été exercée en ce sens par la diminution de la taxe spéciale sur l'essence en août dernier, l'abaissement des primes d'assurance-chômage et l'accroissement des déductions pour les dépenses reliées à l'emploi annoncés lors du budget de novembre. Le délai proposé de la majoration du prix du gaz et du pétrole prévue pour le 1<sup>er</sup> janvier aiderait aussi à réduire les tensions inflationnistes.

Conformément à l'objectif de soutien de la croissance du secteur privé, les gouvernements fédéral et provinciaux ont entrepris de limiter l'augmentation des dépenses publiques. Au niveau fédéral, ce processus, amorcé par l'introduction du Programme de la lutte contre l'inflation s'est poursuivi avec le budget d'avril dernier et le programme de restrictions des dépenses annoncé le 1<sup>er</sup> août par le Premier ministre. Ces restrictions feront en sorte que les dépenses fédérales augmenteront nettement moins vite que le PNB. Cela a été le cas pour les deux dernières années, 1976-1977 et 1977-1978.

Les gouvernements peuvent contribuer sensiblement à la réalisation de l'objectif de réduction de l'inflation, mais ils ne peuvent à eux seuls en assurer le succès. Pour faciliter la transition à la période postérieure aux contrôles, le Conseil économique a été chargé, lors de la conférence de février, d'analyser l'évolution des prix et des coûts pendant un temps limité. Cette responsabilité incombe maintenant au



Lors de l'élaboration de la voie de redressement à moyen terme, il était clair que les gouvernements fédéral et provinciaux devraient prendre certaines initiatives pour aider à la relance de la reprise et créer un climat favorable à son maintien. Il était aussi apparent qu'un large éventail de mesures économiques se renforçant mutuellement devrait être mis en place. Cela était considéré comme nécessaire à l'établissement d'une croissance modérée, non-inflationniste de la demande effective. Une action coordonnée des gouvernements aiderait aussi à contenir les tensions de coûts dans l'économie, non seulement par des ajustements fiscaux mais aussi par le maintien d'une modération juste et équitable des revenus et des prix dans le secteur public.

En même temps, on reconnaissait l'importance des changements et du développement de la structure globale de l'économie canadienne - et le besoin de mesures gouvernementales visant à faciliter l'évolution structurelle, en particulier, au cours des périodes de moyen et de long terme. Les politiques structurelles ont été décrites comme faisant partie de deux catégories qui se chevauchent souvent. En premier lieu, il y a celles se rapportant à l'encadrement global et qui influent sur l'ensemble ou la plupart des secteurs, incluant les domaines tels que la fiscalité, l'investissement et les marchés des capitaux, l'offre de travail et le fonctionnement du marché du travail, l'offre et le prix de l'énergie, le soutien de la recherche et du développement, les relations tarifaires et commerciales, et le vaste champ de réglementation publique pour une multitude de raisons. En second lieu, il y a les politiques sectorielles spécifiques ou l'intervention publique est dirigée aux circonstances particulières de certains sous-secteurs industriels spécifiques - par exemple, les initiatives fédérales visant les industries des fuselages d'avions et des appareils ménagers.

Au niveau le plus vaste de la politique économique, un postulat central à la base des objectifs économiques à moyen terme était que la croissance de la production et de l'emploi à moyen terme devait émaner le plus possible du secteur privé. La condition nécessaire à la croissance voulue du secteur privé à moyen terme était une réduction soutenue du taux d'inflation. Etant donné le degré de sous-utilisation du capital il apparaissait cependant qu'une stimulation fiscale importante et soutenue serait requise au début de la reprise, ce qui entraînerait un certain accroissement des déficits publics. Une amélioration de la croissance et une réduction de l'inflation réduiraient le besoin de stimulation et l'importance des déficits publics diminuerait à moyen terme par rapport au produit national brut.

L'alourdissement de son déficit au cours des dernières années a réduit la marge de manœuvre du gouvernement fédéral en matière de stimulation



Par contre, le nombre de Canadiens voyageant à l'étranger a diminué de 1.1 p. cent, après avoir augmenté en moyenne de 9.1 p. cent en 1975 et 1976 et de 5.7 p. cent en 1977.

Ces statistiques révèlent que la baisse du dollar canadien amorcée en novembre 1976 est en train d'influer sur le nombre de touristes qui se rendent au Canada ou qui en partent. A moyen terme, la dépréciation du dollar, combinée à un ralentissement constant de l'inflation au Canada, devrait contribuer sensiblement à améliorer la compétitivité et le résultat de l'industrie touristique canadienne.

Les mesures visant exclusivement à rendre notre industrie touristique plus concurrentielle devraient elles aussi contribuer à en améliorer les résultats à moyen terme. En particulier, la suspension de la taxe de vente sur les chambre d'hôtel au Québec et en Ontario, ainsi que les mesures instaurant ou augmentant la prise en compte des pourboires dans la fixation du salaire minimum dans ces deux provinces, ont rendu l'industrie touristique nationale plus concurrentielle. Parmi les autres mesures, mentionnons la promotion de forfaits touristiques intéressants, tant pour les Canadiens que pour les non-résidents.

de 200 milles devraient être les plus marquées, sous réserve de programmes efficaces de gestion des ressources marines et d'une augmentation constante des stocks de poisson. Sur la côte ouest, on attend des avantages économiques importants d'un programme fédéral d'investissement à long terme, élaboré en collaboration avec le gouvernement de Colombie-Britannique et visant à augmenter de plus du double la production annuelle de saumonides du Pacifique. Au total, on s'attend à ce que les exportations canadiennes de produits de la pêche (qui représentent environ les deux tiers de notre production totale) puissent doubler d'ici 1985.

## Tourisme

Le tourisme joue un rôle important dans l'économie de toutes les régions. Aussi, ses mauvais résultats, ces dernières années, ont-ils fait naître des préoccupations. La principale cause en est la diminution marquée du nombre de touristes au Canada, 12 p. cent entre 1973 et 1976. Pendant la même période, le nombre de Canadiens voyageant à l'étranger a beaucoup augmenté. Cette évolution s'est reflétée dans l'aggravation du déficit touristique du Canada, qui est passé de moins de \$300 millions avant 1975 à \$1.2 milliard en 1976 et \$1.7 milliard en 1977.

Il semble que l'augmentation rapide du déficit touristique soit imputable en majeure partie à des facteurs cycliques et à des éléments de prix. La faible croissance de l'économie mondiale a fait que les revenus disponibles et la consommation ont relativement peu augmenté à l'étranger. Simultanément, les coûts et les prix du tourisme augmentaient sensiblement plus vite au Canada qu'à l'étranger, ce qui nuisait à la compétitivité de notre industrie touristique. Cette évolution relative des prix et la vigueur du dollar entre 1974 et 1976 ont dissuadé les étrangers de venir au Canada, tandis que les Canadiens trouvaient les voyages à l'étranger de plus en plus intéressants.

L'évolution des deux dernières années est plus encourageante. Bien que le déficit du tourisme se soit encore accru en 1977, les faits indiquent une amélioration de la balance touristique à prix constants avec les Etats-Unis, grâce à une augmentation des recettes et à une augmentation beaucoup plus lente des paiements (en dollars constants) par rapport aux années précédentes. L'augmentation du déficit global du tourisme, depuis 1974, résulte pour les deux tiers du renversement de la balance bilatérale du tourisme avec les Etats-Unis.

Les données disponibles pour les neufs premiers mois de 1978 sont également encourageantes, le nombre de touristes étrangers venant des pays autres que les Etats-Unis ayant augmenté de 18 p. cent par rapport à la même période de l'année précédente. Le nombre de touristes américains a continué de baisser, mais moins vite qu'au cours de toutes les années depuis 1974. Cette baisse constante reflète peut-être les incertitudes sur la vigueur de la reprise aux Etats-Unis.

importants que la fiscalité. Le gouvernement fédéral a ouvert la voie ce mois-ci en améliorant le régime fiscal de l'industrie minière. Certaines provinces étudient également leur fiscalité pour voir si elles pourraient améliorer la compétitivité de l'industrie minière canadienne.

## Agriculture et pêche

L'année 1978 a été relativement bonne pour les agriculteurs canadiens. Leurs recettes devraient atteindre cette année quelque \$11.5 milliards, soit 13 p. cent de plus qu'en 1977. Les coûts des agriculteurs ayant augmenté d'à peu près 8 p. cent, leurs revenus nets seront sensiblement plus élevés en 1978. Les revenus se sont améliorés dans presque tous les grands secteurs, la hausse des prix ayant été particulièrement marquée pour le bétail. Le nombre d'emplois dans l'agriculture a augmenté de 1.3 p. cent par rapport à 1977.

La forte amélioration des revenus et des recettes agricoles cette année ne se reproduira sans doute pas en 1979, ni les deux années suivantes, bien qu'une certaine croissance soit prévue. En particulier, le prix du boeuf devrait continuer d'augmenter, encore qu'un peu moins vite qu'en 1978, du fait que l'offre de boeuf devrait rester relativement faible jusqu'au début des années 80.

Le fédéral a étudié avec les provinces cette année la façon d'appliquer la stratégie du développement agricole, laquelle constitue un élément important du document publié à l'été de 1977 sous le titre Une stratégie alimentaire pour le Canada. Les discussions ont porté principalement sur l'harmonisation des programmes fédéraux et provinciaux de stabilisation des produits. Des différences de soutien d'une province à l'autre pouvant entraîner une répartition inefficace de la production, la nécessité d'une harmonisation a été largement reconnue. Le gouvernement fédéral a maintenant proposé de modifier ses propres programmes de manière à accroître le soutien à long terme d'un certain nombre de produits importants, à condition que les provinces acceptent de retirer graduellement leurs programmes. La proposition a été acceptée en principe par la plupart des provinces, et les discussions se poursuivent.

La rentabilité des pêcheries au Canada et le niveau des revenus des pêcheurs dépendent fortement de l'état des stocks de poisson. En 1974 et 1975, la baisse constante des prises due à une pêche trop intensive, la baisse des prix et les coûts d'exploitation exceptionnellement élevés, se sont traduits par de lourdes pertes et des revenus peu élevés dans ce secteur. Depuis 1976, le redressement des prix, la baisse du dollar canadien et l'amélioration constante des ressources ont contribué à rendre la pêche rentable et à accroître le revenu des pêcheurs.

L'extension de la zone de pêche de 12 à 200 milles permet de reconstituer les stocks de poisson et de les exploiter de manière que l'industrie canadienne de la pêche en tire tout le potentiel économique. C'est sur la côte de l'Atlantique que les bénéfices économiques de la zone



Le cuivre, le nickel et le zinc continuent de souffrir d'une demande faible et de prix peu élevés, tandis que les marchés du molybdène et du plomb restaient soutenus en 1978. La production de nickel a baissé sensiblement en raison de la grève de l'INCO et des réductions dans l'industrie. Les perspectives à court terme vont de bonnes pour le molybdène et le plomb à modérément optimistes pour le cuivre et le zinc. Le prix de ces deux métaux augmente depuis peu et pourrait s'élever encore les deux prochaines années, grâce à la baisse des stocks mondiaux et à la reprise de la demande. Les prix et la demande du nickel risquent par contre de ne pas s'améliorer beaucoup.

La production de minerai de fer a nettement baissé par rapport à 1977, en raison de la fermeture pendant quatre mois et demi des mines de Québec-Labrador et des perturbations des expéditions sur les grands lacs. En 1979, cependant, la production canadienne devrait revenir au niveau précédent, malgré la fermeture prévue de deux mines dans le nord de l'Ontario. Le marché intérieur est resté relativement soutenu et devrait progresser à court et à moyen terme, mais les exportations de minerai de fer souffrent de surabondance de l'offre et de faiblesse des prix.

Pour les autres produits miniers, les perspectives sont généralement plus encourageantes. L'industrie de l'uranium continue de se développer en Ontario et en Saskatchewan, la production de 1978 dépassant nettement celle de 1977. L'exploration progresse dans la plupart des provinces et le résultat obtenu jusqu'ici laisse espérer l'ouverture de plusieurs mines nouvelles dans les années 80. Le secteur de la potasse a enregistré en 1978 des prix nettement plus élevés que l'année précédente. Cette tendance devrait se maintenir. On prévoit des investissements dans certaines mines de la Saskatchewan et une nouvelle mine de potasse devrait s'ouvrir au Nouveau-Brunswick. La demande d'amiante est relativement stable pour le moment et, malgré l'abondance des stocks, l'industrie canadienne tourne à 85-90 p. cent de sa capacité.

Il est difficile de faire un pronostic d'ensemble pour les années 80. Pour certains produits comme la potasse, l'uranium et l'amiante, les perspectives sont encourageantes, mais elles sont plus incertaines pour d'autres. Le sort de l'industrie des métaux de base est largement lié à l'activité industrielle ailleurs. Or, il semble que la demande mondiale augmentera nettement moins vite que pendant les années 60 et le début de la décennie actuelle. En même temps, la concurrence - notamment celle des pays du Tiers Monde - augmentant, le Canada pourrait avoir du mal à garder sa place sur les marchés mondiaux. Cependant, les exportateurs canadiens de produits miniers devraient bénéficier sensiblement de la baisse du dollar.

Les gouvernements fédéral et provinciaux, de concours avec l'industrie, se sont livrés cette année à une étude approfondie de la situation actuelle et des perspectives à moyen terme du secteur. Les résultats obtenus jusqu'ici sont positifs, tout au moins à l'amélioration du climat des consultations et de la coordination dans des domaines aussi



On a une meilleure idée de la signification économique de ces changements en examinant les "effets commerciaux" des nouvelles prévisions de l'Office en 1978. En exportant un peu plus et en important beaucoup moins qu'il était prévu dans le rapport de 1977, le Canada améliorerait le solde de ses échanges de pétrole d'environ \$600 millions (en monnaie de 1978) en 1979. En 1980, le gain pourrait atteindre \$730 millions et en 1981, \$835 millions, pour donner sur trois ans un total d'environ \$2.2 milliards. Sur l'ensemble de la période de prévisions de l'Office, soit jusqu'en 1995, l'amélioration totale pourrait atteindre les \$45 milliards.

Les perspectives d'approvisionnement s'améliorent aussi pour le gaz naturel. Les audiences de l'ONE sur l'offre et la demande de gaz naturel ne sont pas terminées, et l'Office ne devrait produire son rapport qu'au début de l'an prochain. Les faits présentés par l'industrie, ainsi que les organismes provinciaux, pour préparer les audiences laissent entrevoir un excédent sensible de gaz. Cette situation contraste agréablement avec les prévisions faites en 1975 et 1977, selon lesquelles le Canada devait être incapable de satisfaire sa demande intérieure et ses engagements actuels d'exportation vers la fin des années 70.

Les mines canadiennes d'uranium produisent à pleine capacité. Les activités d'exploration atteignent un niveau record et un certain nombre de découvertes importantes ont été signalées. Il semble que le Canada pourra satisfaire la demande accrue à l'exportation, dans le cadre d'un système qui assure la protection à long terme des besoins intérieurs.

Les efforts de conservation des Canadiens se sont traduits par une demande intérieure d'électricité plus faible que prévue. Il en est résulté une augmentation sensible, dans plusieurs provinces, de l'excédent disponible pour l'exportation en 1977 et 1978. En outre, une croissance moins rapide de la demande devrait permettre aux services publics d'étaler les augmentations futures de capacité.

Une évolution prometteuse est également en cours dans l'industrie du charbon. Grâce à l'achèvement des installations de chargement de Lakehead, des expéditions importantes de charbon de l'ouest canadien se font maintenant vers l'Hydro Ontario. La province aura ainsi une solution de remplacement aux importations. Un programme permanent de modernisation des gisements de charbon des Maritimes laisse espérer une amélioration de la compétitivité de cette région. Quant à l'ouest, il possède des réserves suffisantes pour répondre dans une large mesure à la demande intérieure et extérieure de houille thermique et métallurgique.

## L'industrie minière

L'industrie minière canadienne a eu récemment des résultats inégaux. Presque la moitié de sa production étant exportée, sa vitalité dépend beaucoup de l'évolution économique mondiale. Alors que certains produits miniers ont bénéficié d'une demande relativement soutenue, d'autres, notamment les métaux de base, ont ressenti la faiblesse économique actuelle des principaux partenaires commerciaux du Canada. Les perspectives ne sont guère différentes pour 1979.

La baisse du taux de change et le ralentissement sensible des coûts unitaires de main-d'oeuvre ont donné à l'industrie manufacturière des conditions d'expansion et de croissance soutenue à moyen terme. En raison du ralentissement économique maintenant prévu aux États-Unis, les travailleurs et les entreprises devront collaborer de façon à maintenir et à renforcer la compétitivité du secteur manufacturier. Les travaux accomplis au cours des derniers mois par les 23 groupes d'étude sectoriels et le rapport du Comité du deuxième niveau ont contribué sensiblement à mieux faire comprendre les problèmes et les possibilités de plusieurs industries manufacturières. Les stimulants fiscaux prévus dans le budget de novembre les aideront à améliorer leur efficacité et à augmenter leur capacité de production.

## Secteur énergétique

Le secteur énergétique attire particulièrement l'attention depuis quelques années. La montée des prix mondiaux du pétrole et la nécessité de mieux garantir les approvisionnements ont posé des défis à tous les pays consommateurs, y compris le Canada. Cependant, à la différence de la plupart des pays industrialisés, le Canada a pu, grâce à l'abondance relative de ses ressources, atténuer le choc en laissant les prix augmenter progressivement, et se lancer dans de nouveaux investissements dans le secteur énergétique.

Ce secteur a été extrêmement vigoureux au Canada en 1978. Tandis que la production demeurait relativement stable en volume, les recettes augmentaient sensiblement. En outre, des prix plus élevés et de généreux encouragements fiscaux de la part du gouvernement fédéral et des provinces ont contribué à des investissements sans précédent dans l'industrie. Ainsi, les dépenses d'exploration pétrolière et gazière ont atteint environ \$8 milliards en 1978, soit le double du chiffre de 1975. Pour 1979, l'industrie prévoit de dépenser environ \$10 milliards. Pendant les années 60, les dépenses d'investissement du secteur énergétique ont représenté en moyenne, au Canada, 15 p. cent environ du total des investissements. En 1970, cette proportion a nettement augmenté pour passer à environ 20 p. cent en 1977 et 1978. Le taux annuel moyen d'augmentation (de 1974 à 1978) a été d'environ 22 p. cent pour les services publics d'électricité, le pétrole brut et le gaz naturel, et de 30 p. cent pour le charbon et l'uranium. Cette hausse plus rapide des investissements a influé favorablement sur les perspectives d'approvisionnement en énergie au Canada. On peut le constater en comparant la plus récente évaluation des principales sources d'énergie canadiennes aux prévisions précédentes.

L'Office national de l'énergie prévoyait, dans son rapport de 1977 sur l'approvisionnement pétrolier, que les expéditions de pétrole canadien à Montréal demeureraient à 250,000 barils par jour jusqu'en 1982, et qu'en 1983, l'oléoduc Sarnia-Montréal serait inversé, de façon que le pétrole importé passerait à 20,000 barils par jour en 1979, à 1,000 barils par jour en 1980, pour ensuite passer à zéro. Cependant, le rapport de 1978 conclut que les expéditions de pétrole canadien à Montréal pourront continuer au moins jusqu'en 1995. À moyen terme, jusqu'en 1983, l'Office indique que le débit de l'oléoduc Sarnia-Montréal pourrait augmenter à 315,000 barils par jour pendant trois ans.



comportement de ces secteurs en 1978 pour favoriser la compréhension de l'évolution prévisible à moyen terme, dans le cadre de la voie globale d'expansion prévue jusqu'au début des années 80.

## Industrie manufacturière

Une bonne partie de la croissance de l'emploi en 1978 dans le secteur des biens a été le fait de l'industrie manufacturière, où 62,000 emplois supplémentaires ont été créés depuis le début de l'année. Ce chiffre représente environ les trois quarts de l'augmentation totale de l'emploi dans le secteur des biens. L'industrie manufacturière a bénéficié de la baisse du taux de change, de la progression de la demande intérieure et du ralentissement des coûts unitaires de main-d'oeuvre. Sa production, pour les huit premiers mois de l'année, dépassait de 5.6 p. cent celle de la même période pour l'année précédente. Au deuxième trimestre - dernière période pour laquelle on possède des statistiques - le taux d'utilisation des capacités dans l'industrie manufacturière s'est élevé de 2.1 points de pourcentage pour atteindre 86.4 p. cent. Ce taux est supérieur à la moyenne de la période de 1961-1977, et est le plus élevé depuis la fin de 1974.

Cette croissance a été générale dans toute l'industrie manufacturière. Elle a été particulièrement marquée dans l'industrie du papier et des produits connexes. Les exportations de papier journal ont augmenté rapidement en volume cette année et cette industrie tourne à pleine capacité. Le marché international de la pâte de bois semble se raffermir grâce à la diminution des importants stocks mondiaux. Parmi les autres industries produisant des biens non durables, le tricot, le vêtement, les textiles et le cuir ont progressé assez vigoureusement, en partie grâce au continuellement des importations et aux réductions (ou éliminations) temporaires des taxes provinciales sur les ventes au détail. L'industrie des aliments et boissons a affiché une bonne tenue en Alberta et au Québec, tandis que dans les provinces de l'Atlantique, les prises de poisson augmentaient fortement. Dans les Prairies, par contre, des conflits de travail dans les conserveries de viande ont nui à la production.

Parmi les producteurs de biens durables, l'industrie du matériel de transport en général, et l'industrie de l'automobile en particulier, ont enregistré des taux élevés d'utilisation des capacités, après une vive progression les deux années précédentes. L'industrie de l'automobile a de grands travaux d'investissements en cours. La production de bois a continué d'augmenter rapidement cette année, par suite à la fois de la vigueur antérieure des mises en chantier d'habitations et de la forte croissance des exportations de bois, notamment à destination des États-Unis. La production de l'industrie des métaux de base s'est accrue de 8.1 p. cent en 1977 et de plus de 7 p. cent au cours des huit premiers mois de 1978, mais le taux d'utilisation des capacités demeure inférieur au taux moyen de 1961-1977. Dans les industries du meuble, de la métallurgie et de la machinerie, la production s'est notablement améliorée cette année, après avoir stagné ou diminué en 1977.

## 6. EVOLUTION SECTORIELLE

L'année 1978 a vu de nombreux secteurs commencer à reconstruire leurs effectifs pour profiter des nouvelles possibilités et de la reprise. Le tableau 1 illustre la hausse moyenne de l'emploi en pourcentage pour 1977 et les dix premiers mois de 1978. Pendant cette dernière période, le nombre total d'emplois a été de 3.4 p. cent plus élevé que pendant la période comparable de 1977. Un redressement important s'est produit dans le secteur des biens, où l'emploi s'est accru de 2.5 p. cent pendant les dix premiers mois de l'année, après avoir baissé de 1 p. cent en 1977. Le secteur des services a continué de soutenir vigoureusement la croissance globale de l'emploi.

Tableau 1

Taux de croissance de l'emploi  
par secteur, 1977-1978(1)

	1977	1978
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Ensemble des secteurs	1.9	3.4
Secteur des biens	-1.0	2.5
Agriculture	-1.3	1.3
Forêts, pêches et piégeage	-1.1	10.9
Mines, carrières et puits de pétrole	4.8	5.3
Construction	-0.2	-0.8
Fabrication	-1.6	3.2
Secteur des services	3.4	3.9
Transports, communications et autres	-0.6	4.5
services publics	2.2	3.6
Commerce	7.2	3.2
Finance, assurances et immobilier	4.8	4.7
Services socio-culturels, commerciaux et personnels	3.2	1.5
Administration publique		

(1) Les chiffres de 1978 sont basés sur le nombre moyen d'emplois au cours des dix premiers mois de 1977 et 1978.

Source: Statistique Canada, La population active, cat. 71-001.

Ces dernières années, on s'est inquiété des perspectives d'un certain nombre de secteurs canadiens, en particulier celui de la production des biens et le tourisme. Aussi serait-il bon d'étudier rapidement le



Le retard des investissements en 1978 a été compensé par la forte performance des exportations. La baisse du dollar canadien a eu des effets marqués sur le commerce extérieur du Canada: en volume, les exportations de marchandises progresseront d'environ 8 p. cent en 1978, tandis que les importations ne s'accroîtront que d'à peu près 4 p. cent. L'excédent commercial atteindra cette année un niveau record proche de \$4 milliards en dollars courants. Le déficit global de la balance courante en dollars courants s'alourdira cette année en raison de l'aggravation du déficit du poste des services. Cependant, la hausse marquée des exportations et la faible croissance des importations seront les principaux facteurs d'une amélioration sensible du solde de la balance courante, exprimée en dollars constants. L'amélioration de la balance extérieure en volume contribuera sensiblement à la croissance globale réelle en 1978.

Les perspectives à moyen terme de la balance extérieure du Canada dépendent de la vigueur relative de deux ensembles de facteurs ayant des influences contraires. Une croissance inférieure à celle prévue dans l'économie canadienne est maintenant escomptée chez les principaux partenaires commerciaux du Canada. Cependant l'effet de cette croissance plus faible aux Etats-Unis et ailleurs pourrait être compensé par l'amélioration de la compétitivité des industries canadiennes résultant de la meilleure tenue des coûts et de la baisse du dollar canadien. Un taux de change moyen inférieur aux R.U. \$0.93 supposés dans l'économie canadienne semble maintenant probable à moyen terme. Il est essentiel d'éviter que cette amélioration de la compétitivité soit effritée par une nouvelle accélération des hausses de prix et de salaires.

La forte hausse de la consommation nécessaire à la mise en branle de la reprise ne s'est pas concrétisée totalement en 1978. On prévoit pour cette année une augmentation réelle de la consommation de seulement 3.5 à 4 p. cent. L'économie canadienne prévoyait qu'un recul du taux d'épargne personnel, à la suite du ralentissement de l'inflation, stimulerait la croissance de la consommation en 1978. En fait, l'inflation s'est accélérée et le taux d'épargne devrait, selon les prévisions, rester au niveau élevé de 1977. Les salaires réels ont également diminué cette année. Bien que le revenu disponible des particuliers augmentera plus vite que le revenu personnel cette année, la différence ne sera pas assez importante pour stimuler la consommation suffisamment pour atteindre l'objectif escompté. Une amélioration de la tenue des prix au cours des deux à trois prochaines années permettrait d'attendre une baisse du taux d'épargne. Cela soutiendrait la croissance de la consommation à moyen terme.

S'étant engagées à contenir leurs dépenses, le gouvernement fédéral et certaines provinces maintiendront la croissance de leurs dépenses en deçà de celle de la production cette année. Le programme fédéral de restrictions budgétaires a réduit sensiblement l'augmentation des achats de biens et de services, qui sera inférieure cette année à l'augmentation du service de la dette publique et des transferts aux particuliers. Cette politique se traduira aussi par une hausse des investissements publics inférieure à celle prévue dans l'économie canadienne. Les restrictions de dépenses resteront un objectif du gouvernement fédéral à moyen terme.

L'économie canadienne ne prévoyait pas que la croissance des investissements jouerait un rôle important dans le lancement de la reprise. Comme prévu, cette croissance sera modeste en 1978. Cependant, la baisse du dollar et l'amélioration fondamentale de la structure des coûts dans l'économie ont ouvert de nouvelles possibilités à nombre d'industries. On peut s'attendre à une certaine reprise des investissements l'an prochain. L'enquête d'octobre sur les intentions d'investissements de 300 grandes entreprises a révélé que ces dernières prévoient accroître leurs immobilisations de 16 p. cent, en dollars courants, en 1979. Ce chiffre représente une croissance réelle des investissements d'environ 8 p. cent pour ces sociétés. Pour l'ensemble de l'économie, on prévoit une progression réelle des investissements de 3 à 5 p. cent en 1979 et un raffermissement soutenu à moyen terme.

On comptait que les investissements énergétiques joueraient un rôle central dans le soutien de la reprise à moyen terme. Sur les quatre années 1978-1981, on prévoyait une croissance moyenne supérieure à 14 p. cent par an en termes réels pour ces investissements au cours de la période 1978-1981, la majorité de ces immobilisations étant attendue vers la fin de la période. Certains indices portent à croire que les investissements énergétiques, d'ici 1981, pourraient être un peu moins élevés que prévu. En raison des longs délais de lancement et d'achèvement des projets énergétiques, certains investissements escomptés avant 1981 ne prendront probablement place que plus tard. Malgré ce délai, les investissements énergétiques continueront de jouer un rôle important dans le développement économique du Canada à moyen et à long terme.

sont encore préliminaires et pourraient être revisées, il est difficile d'être précis sur ce point. Le modèle de reprise présenté dans l'économie canadienne semble donc constituer encore un guide utile à l'élaboration d'une stratégie à moyen terme en dépit du fait que la période de reprise pourrait être un an ou deux plus longue qu'envisagée.

L'emploi a progressé très fortement cette année. En moyenne, au cours des dix premiers mois de 1978, 333 mille personnes de plus étaient employées que pendant la même période de 1977. Cela représente une hausse de 3.4 p. cent, ce qui est sensiblement supérieur à la croissance moyenne de 2.8 p. cent prévue dans la voie de redressement de l'économie économique. Cependant, en même temps et pour des raisons mentionnées plus tôt, la population active s'est accrue plus rapidement encore et, donc, le taux de chômage n'a pas diminué.

L'an prochain, il semble que le taux de croissance de l'emploi sera probablement à un niveau plus conforme à l'augmentation moyenne projetée pour la période 1978-1981. Il est plus difficile cependant de prévoir l'évolution de la population active. Comme l'indiquait le chapitre 2, le taux de participation s'est fortement accru en 1978, à cause surtout de la forte hausse de la participation des femmes adultes. Celle-ci a diminué en octobre, pour la première fois depuis plus de 12 mois. Cela pourrait indiquer une certaine atténuation de la forte croissance récente de l'entrée des femmes dans la population active. En dépit de cela, il est vraisemblable que le taux de participation des femmes adultes et, donc, le taux global de participation seront plus élevés à moyen terme qu'il n'était prévu dans l'économie canadienne.

En 1978, la croissance plus faible que prévu de la DNB et la forte hausse de l'emploi ont résulté en une augmentation de la productivité du travail inférieure à la moyenne envisagée par la voie de redressement à moyen terme. Cette faible performance de la productivité reflète en partie la croissance lente de l'économie en 1978. Aucun fait disponible ne permet de penser qu'une croissance réelle plus rapide ne s'accompagnerait pas d'une amélioration sensible du taux d'augmentation de la productivité.

### 5.3 Composantes des dépenses

La voie prévue de redressement à moyen terme dans l'économie canadienne se caractérisait par un raffermissement des investissements et des exportations nettes. Etant donné l'écart relativement faible du stock de capital fixe en 1977 et la sous-utilisation des capacités existantes, on ne s'attendait pas à ce que les investissements contribuent sensiblement à la croissance de la production en 1978. On prévoyait que les exportations nettes renforceraient de plus en plus l'expansion, à mesure que la compétitivité intérieure se redressait à moyen terme. Pour la consommation, on prévoyait une augmentation à peu près identique à celle de la DNB réelle sur l'ensemble de la période 1978-1981, mais aussi une forte amélioration en 1978-1979, contribuant ainsi de façon importante à la relance économique.



## 5.2 Principaux agrégats

tendance à la décélération des salaires et des prix après la levée des contrôles. Des efforts de rattrapage du terrain perdu par les salaires réels à la suite de la hausse temporaire et imprévue des prix pourraient entraîner une augmentation des revendications salariales, ce qui pourrait déclencher une nouvelle spirale salaires-prix.

Le taux annuel d'augmentation des coûts unitaires de main-d'œuvre a diminué sensiblement au cours des deux premiers trimestres de 1978. Les coûts unitaires de main-d'œuvre s'accroissent présentement à un rythme annuel voisin de celui prévu dans l'économie canadienne. Cette décélération reflète la baisse plus importante que prévue des gains moyens de salaires, compensée par une amélioration plus faible que prévue de la productivité.

Une bonne tenue du prix des aliments, combinée à la modération des hausses de salaires et de prix, contribuerait à améliorer les résultats en matière d'inflation l'an prochain. Un délai temporaire, tel que proposé, des augmentations des prix du pétrole et du gaz aiderait également. Une aide supplémentaire sera apportée par la réduction de la taxe de vente sur les fabricants et des primes d'assurance-chômage annoncées lors du dernier budget. Ces facteurs devraient avoir pour effet de réduire à environ 6.5 p. cent le taux d'inflation l'an prochain. Ce taux d'inflation serait cependant quelque peu supérieur au taux projeté pour 1979 dans l'économie canadienne. Il est donc d'une importance particulière de renforcer les facteurs qui résulteraient en des réductions additionnelles du taux d'inflation en 1980 et au cours des années suivantes.

La voie de redressement à moyen terme présentée dans l'économie canadienne était présentée sous la forme d'un taux de croissance moyen de 5.5 p. cent sur l'ensemble de la période 1978-1981. Cela permettrait une certaine variation des taux de croissance réalisés chaque année. Si l'économie devait progresser à un rythme inférieur, mais voisin, à la moyenne voulue au cours de la première année, les résultats sensiblement supérieurs. Par contre, une expansion nettement plus faible en 1978 accroîtrait la difficulté de réaliser la croissance moyenne envisagée sur l'ensemble de la période 1978-1981.

On prévoit pour 1978 une croissance réelle d'environ 4 p. cent. Pour l'an prochain, on escompte une croissance réelle de l'économie de 4 à 4.5 p. cent. Un taux de croissance sensiblement supérieur serait requis en 1980 et en 1981 pour réaliser un taux de croissance moyen de 5.5 p. cent sur l'ensemble de la période de quatre ans. Une telle accélération de la croissance ne serait pas inconsistante avec l'évolution des autres reprises de l'après-guerre mais risquerait d'introduire de nouvelles tensions inflationnistes. L'objectif fondamental de réalisation d'une croissance soutenue pourrait donc être mieux servi en n'atteignant la courbe de croissance à long terme qu'un an ou deux après 1981. Etant donné les incertitudes qui caractérisent les développements économiques et que les estimations de la performance récente de l'économie



## 5. EVOLUTION A COURT TERME ET PERSPECTIVES A MOYEN TERME

### 5.1 Prix et salaires

La croissance des salaires moyens (revenu du travail par personne employée) a fortement ralenti en 1978, baissant en dessous de 6 p. cent sur une base annuelle au cours du second trimestre. Bien que les révisions ultérieures des comptes nationaux soient susceptibles d'accroître leur croissance estimative, ce taux de croissance n'atteindra sans doute pas le niveau de 7.5 p. cent prévu dans l'économie canadienne pour l'année courante. Les statistiques d'augmentations salariales au cours du troisième trimestre suggèrent également qu'aucune accélération majeure des hausses de salaires moyens ne s'est produite jusqu'ici cette année. Le ralentissement de la hausse des salaires moyens en 1978 est attribuable à plusieurs facteurs, dont l'effet du Programme de lutte contre l'inflation et un certain accroissement de l'emploi à temps partiel, lequel a pour effet d'abaisser les salaires moyens.

Le ralentissement sensible des hausses salariales s'est accompagné d'une baisse du taux d'augmentation du prix des biens et services dont les coûts salariaux représentent la majeure partie du prix de revient. Sur les trois premiers trimestres de 1978, l'IPC, alimentation exclue, s'est élevé au taux annuel de 6.9, 6.1 et 6.1 p. cent, respectivement. Ces taux correspondent à un rythme annuel de hausse des prix non-alimentaires proche de l'objectif de 6 p. cent retenu dans les projections à moyen terme. La réduction temporaire des taxes de vente provinciales, au printemps dernier, a aussi contribué à l'amélioration de la tenue des prix.

Malgré cette réduction sensible du taux d'inflation fondamental, l'augmentation de l'ensemble des prix à la consommation s'est accélérée au cours de cette année. En septembre dernier, les prix dépassaient de 8.6 p. cent leur niveau de l'année précédente. Des hausses inattendues du prix des aliments ont joué un rôle important dans cette montée de l'inflation. Les prix alimentaires se sont élevés à des taux annuels de 14.1, 16.5 et 17.6 p. cent, respectivement, au cours des trois premiers trimestres de l'année. Les fortes augmentations du prix du boeuf (en raison du passage à la phase de contraction du cycle de production du boeuf en Amérique du Nord) et des fruits et légumes frais (à cause d'une faible récolte hivernale aux Etats-Unis et d'une récolte estivale moyenne seulement au Canada) ont été les principaux responsables de cette médiocre tenue des prix alimentaires. La baisse du dollar a aussi ajouté aux pressions sur les prix alimentaires.

L'accélération des prix à la consommation et le ralentissement des hausses salariales se sont traduits par une baisse des salaires réels moyens en 1978. Cela a retardé la croissance de la consommation réelle. Cela pourrait aussi rendre plus difficile le maintien de la

A moyen terme, la réaction des hausses salariales aux fluctuations du taux de chômage dépend non seulement de la flexibilité des salaires, mais aussi de la vitesse d'ajustement des anticipations inflationnistes aux changements du taux d'inflation. On ne peut dire exactement comment les anticipations de prix se forment. Il y a cependant peu de doute que ces anticipations dépendent en partie de l'évolution passée des prix. Elles peuvent en outre être influencées par les initiatives du gouvernement. En d'autres termes, si les particuliers pensent que la politique du gouvernement ralentira la hausse des prix, ils agiront peut-être comme si l'inflation allait s'atténuer.

Jusqu'en 1973, un certain nombre de facteurs se sont conjugués pour aggraver l'inflation: ces facteurs incluaient une forte croissance de la demande globale, qui résultait en partie d'une politique de la demande fortement expansionniste; la montée des anticipations inflationnistes; et l'augmentation des traitements dans le secteur public. D'importants changements structurels intervinrent également sur le marché du travail pendant cette période. La hausse du taux de participation des femmes et des jeunes, l'augmentation du nombre de familles à revenus multiples et les révisions apportées en 1971 à la loi de l'assurance-chômage ont contribué à relever le niveau de chômage à partir duquel des tentions inflationnistes risquent d'apparaître. L'effet combiné de ces facteurs s'est traduit par des taux d'inflation de 3 à 5 p. cent. En l'absence des perturbations extérieures de prix des années 1973-1975, l'inflation n'aurait sans doute pas atteint les deux chiffres et aurait sans doute pu être réduite par une politique de la demande plus restrictive.

La forte majoration des prix de l'alimentation et de l'énergie intervenue après 1972 a eu un effet direct et immédiat sur le rythme de l'inflation. Il en est résulté une intensification des revendications salariales, du fait que les travailleurs, d'une part, voulaient maintenir leur pouvoir d'achat et, d'autre part, prévoyaient une inflation rapide à l'avenir. Cela a résulté en une spirale secondaire prix-salaires qui a renforcé le processus inflationniste.

Le rythme d'augmentation des salaires diminue régulièrement depuis 1975, à cause à la fois du programme de lutte contre l'inflation et du niveau élevé du chômage. Aussi le taux d'augmentation du prix des produits dont les coûts salariaux intérieurs représentent la majeure partie du prix de revient a-t-il diminué et des gains sensibles ont-ils été réalisés en ce qui concerne le rétablissement de la compétitivité de l'économie canadienne. Cependant, le taux global d'inflation n'a pas évolué de manière aussi satisfaisante, sauf en 1976, en raison d'une forte augmentation du prix des aliments et du fléchissement du dollar.

A moyen terme, une meilleure tenue du prix des aliments et un dollar plus stable, avec une augmentation modérée des salaires dans les secteurs tant privé que public, permettraient une décélération soutenue de l'inflation. A cet égard, il faudra absolument que les hausses de prix de 1978 qui ont un caractère essentiellement temporaire ne soient pas incorporées à la structure des coûts canadiens par des augmentations pleinement compensatrices des salaires.



Etant donné l'importance de la réduction de l'inflation à moyen terme, il est utile d'étudier les facteurs qui ont le plus contribué au taux élevé d'inflation observé récemment au Canada.

A long terme, l'inflation est essentiellement un phénomène monétaire. Une hausse du taux de croissance de la masse monétaire se traduira éventuellement par une augmentation correspondante du taux d'inflation. Cependant, à court et à moyen terme, un accroissement de la masse monétaire ne se traduit pas par une accélération proportionnelle de l'inflation, pas plus qu'une diminution de la masse monétaire n'entraîne nécessairement une baisse correspondante de l'inflation. Il existe donc des arbitrages entre l'inflation et le chômage à court et à moyen terme.

La relation à court terme entre le taux de chômage et les augmentations de salaires dépend essentiellement de la flexibilité des salaires réels et nominaux. Les hausses salariales semblent être relativement insensibles aux fluctuations du chômage. L'évidence empirique pour le Canada indique que, quand le chômage est déjà élevé, une nouvelle augmentation du chômage n'a, à court terme, qu'un faible effet sur le taux d'augmentation des salaires. Quand le chômage est faible, par contre, l'effet pourrait être assez marqué.

Les coûts salariaux représentent la majeure partie du prix de revient d'un grand nombre de biens et de services, dont ils sont le principal déterminant des prix. Même dans ces cas, cependant, le rapport entre les coûts salariaux et les prix peut être instable et peut varier en fonction d'autres facteurs. Il existe aussi des marchés sur lesquels les prix peuvent être fixés sans égard à l'évolution des salaires; pour les produits agricoles, par exemple, les contraintes d'offre et la demande peuvent jouer un rôle plus important que les coûts salariaux dans la détermination des prix. Les prélèvements de l'Etat n'ont pas non plus de rapport étroit avec les coûts de main-d'oeuvre. Le renchérissement des produits transigés sur le marché international ou les variations du taux de change peuvent également entraîner directement une accélération de l'inflation. Les hausses de prix dues à ces facteurs ont contribué sensiblement à l'élévation des taux d'inflation pendant les années 70. Il est donc possible d'avoir, pendant un certain temps, une inflation croissante malgré une décélération des augmentations salariales.

I On trouvera un exposé plus détaillé des questions relatives à l'inflation dans le document intitulé *Evolution récente de l'inflation au Canada*, ministère des Finances, novembre 1978.

En second lieu, il existe une relation importante entre l'inflation et les bénéfices et, par le jeu de ces derniers, entre l'inflation et l'investissement. Une inflation rapide gonfle les bénéfices nominaux mais réduit les bénéfices réels. Une accélération de l'inflation renforce les incertitudes et fait monter le coût du capital. Par conséquent, des taux élevés d'inflation font baisser le taux réel de rendement, augmentent le coût du capital et diminuent les incitations à investir. Une inflation peu rapide a les effets contraires. Un ralentissement de l'inflation à moyen terme contribuerait à améliorer les taux réels de rendement, à faire baisser le coût du capital et à encourager l'investissement.

En troisième lieu, une diminution sensible du taux d'inflation était considérée comme essentielle à l'amélioration des résultats commerciaux à moyen terme. Le Canada a commencé, en 1975, à enregistrer un déficit des paiements courants dépassant 4 milliards. Une partie de l'élargissement du déficit était due à des facteurs conjoncturels, l'économie canadienne tournant plus près de sa capacité maximale de production en 1974-1975 que ses principaux partenaires commerciaux. Cependant, la compétitivité du Canada s'était aussi nettement détériorée. Les salaires réels avaient augmenté plus vite que la productivité depuis 1972. Cette baisse de compétitivité était évidente dans certaines industries manufacturières et de transformation des biens. Elle était particulièrement marquée dans le secteur du tourisme où, jointe à des facteurs conjoncturels, elle a entraîné un élargissement rapide du déficit de la balance au titre des voyages. Le fléchissement du dollar canadien contribuerait à rétablir la compétitivité intérieure; cependant, si l'on reposait uniquement sur ce mécanisme pour résorber le déficit de la balance courante, cela pourrait compromettre la réalisation de l'objectif d'inflation ainsi que la reprise à moyen terme. Etant donné que la reprise projetée comportait une croissance réelle plus rapide au Canada que chez ses principaux partenaires commerciaux, la reprise en main de la structure des coûts intérieurs était considérée comme critique et indispensable à l'assurance d'une contribution positive du secteur extérieur à la croissance.

Enfin, une meilleure tenue des prix, en soutenant la croissance du secteur privé, allégerait le fardeau de stimulation incombant à la politique fiscale. Après le début du ralentissement amorcé en 1974, la situation financière du secteur public s'est orientée vers un déficit important, ce qui a amorti l'effet de la croissance au ralentissement. Le déficit du gouvernement fédéral a atteint des niveaux très élevés par rapport au passé, équivalant à 3.5 p. cent du PNB en 1977, contre 1 p. cent en 1961. Par contre, le secteur provincial/municipal/hospitalier, bien que sensiblement plus grand qu'en 1961, n'avait un déficit que de 0.1 p. cent en 1977, contre 1.1 p. cent en 1961. Simultanément, le développement du RPC/RRQ signifiait qu'un effet de freinage fiscal supplémentaire, équivalant à 1 p. cent du PNB, s'était ajouté au système.

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On trouvera une étude détaillée du rôle des facteurs conjoncturels et des prix dans l'élargissement du déficit touristique canadien dans le document intitulé Le poste des services dans la balance des paiements, ministère des Finances, novembre 1978.



Après avoir étudié le potentiel de croissance à long terme du Canada, L'économie canadienne décrivait une voie de redressement à moyen terme permettant de rapprocher l'économie de son niveau potentiel de production d'ici 1981. Sur cette voie de redressement, on envisageait une croissance moyenne de la DNB réelle de 5.5 p. cent de 1978 à 1981. Cette croissance devait permettre de ramener le taux de chômage à moins de 6 p. cent d'ici la fin de 1981. Un retour du taux d'inflation aux niveaux observés au cours des années 60 était considéré comme une condition nécessaire à l'obtention d'une reprise soutenue. Ces prévisions impliquaient donc une réduction simultanée de l'inflation et du chômage. Cela représentait un ensemble d'objectifs ambitieux et difficiles à atteindre. Toutes les périodes de reprise de l'après-guerre ont vu la baisse du taux de chômage s'accompagner d'une accélération de la hausse des prix.

Le profil de la demande présente dans L'économie canadienne reposait sur l'opinion que la croissance de la production et de l'emploi à moyen terme devrait émaner le plus possible du secteur privé. La reprise projetée était dominée par la vigueur des investissements, notamment dans le secteur énergétique. On prévoyait une croissance des exportations réelles supérieure à celle des importations, contribuant donc à stimuler la croissance, le déficit de la balance courante diminuant en proportion de la DNB réelle. Comme il est noté ci-dessous cela dépendait de façon importante des perspectives de croissance à moyen terme des partenaires commerciaux du Canada, en particulier, les Etats-Unis. Les dépenses de consommation devaient jouer un rôle crucial dans la relance, ainsi que le maintien, de la reprise. Pour les dépenses publiques, on ne prévoyait qu'une faible augmentation réelle, à un taux sensiblement inférieur à celui de la croissance de la DNB réelle.

Le rétablissement de la stabilité des prix et des salaires était considéré, pour plusieurs raisons, comme indispensable à l'obtention de ce profil des dépenses. En premier lieu, l'inflation rapide des années 70 a contribué à faire monter le taux d'épargne personnelle à un niveau observé seulement au cours d'une période précédente d'inflation dans les deux chiffres. Ce taux a été en moyenne de 10.5 p. cent pendant les trois années 1974-1976 contre 5.3 p. cent en 1970. Un ralentissement de l'inflation entraînerait une baisse du taux d'épargne personnelle, ce qui stimulerait la consommation, notamment au début de la reprise.

des besoins intérieurs ne peut être obtenue économiquement, le Canada deviendra un importateur net d'énergie et, si le prix relatif plus élevé de l'énergie se maintient, subira une dégradation de ses termes de l'échange. Dans la mesure où la production intérieure peut être développée, la détérioration des termes de l'échange sera atténuée. Cependant, si cette augmentation de la production intérieure d'énergie s'accompagne d'une hausse des coûts de production, des effets négatifs s'exerceront, à long terme, sur la productivité, le revenu et la DNB.

Les faits disponibles sur la forme de la courbe d'offre d'énergie au Canada ne sont pas concluants. D'un côté, un certain nombre de projets d'exploitation à coût élevé sont en cours ou sont envisagés tandis que, d'un autre côté, des réserves importantes de pétrole et de gaz naturel à coût faible semblent être encore disponibles. Comme on ne sait pas encore si le Canada a exploité à fond ses ressources énergétiques à coût faible, il est difficile de déterminer avec précision la forme de la courbe d'offre d'énergie. Par conséquent, l'importance quantitative de l'effet négatif de la hausse du prix de l'énergie sur le revenu et la production canadiens à long terme n'est pas claire.

D'autres facteurs que nous n'avons pas abordés ici influent aussi sur la croissance de la productivité à long terme. Dans un certain nombre de domaines - par exemple, l'effet des normes de lutte contre la pollution - des études additionnelles sont requises avant que l'on puisse tirer des conclusions. D'ici à ce que ces travaux soient terminés, la prévision de croissance tendancielle de la productivité de 2 p. cent par an, présentée dans l'économie canadienne, reste provisoire. Cependant, du même coup, aucun fait ne permet actuellement de penser que la croissance future de la productivité s'écartera sensiblement de la tendance passée.

## 2.5 Résumé

Nous avons réexaminé ci-dessus les principales hypothèses sur lesquelles reposent les prévisions de croissance économique à long terme présentées en février dernier dans l'économie canadienne à la lumière de l'évolution récente et de faits nouveaux dans certains domaines. Il semble que les taux de participation pourraient s'élever un peu plus vite que le prévoyait l'économie canadienne. L'effet positif de ces taux de participation plus élevés sur la croissance à long terme pourrait être compensé en majeure partie par une augmentation moins rapide que prévue de la population en âge de travailler, reflétant une immigration nette plus faible que prévue. Il ne semble pas exister, à l'heure actuelle, d'éléments suffisants pour justifier une modification des hypothèses de croissance de la productivité présentée dans l'économie canadienne. Dans l'ensemble, compte tenu de certaines influences compensatrices, les projections de croissance à long terme de l'économie canadienne restent un bon indicateur des perspectives d'expansion économique du Canada à long terme.



Il est essentiel de distinguer le revenu et la DNB réelle pour évaluer les effets d'une hausse du prix de l'énergie sur le potentiel de croissance économique. Pour voir cela, il est nécessaire d'analyser les répercussions de cette hausse tant sur le secteur énergétique que sur le secteur non-énergétique de l'économie.

On peut s'attendre en général à ce que l'économie ait un appareil de production permettant une certaine substitution du capital et du travail à l'énergie, quand le prix de celle-ci augmente. Dans une économie qui tourne à son potentiel de production et où les ressources sont complètement utilisées, l'effet initial d'une hausse du prix de l'énergie se traduirait par une diminution de la consommation d'énergie et de la production dans le secteur non-énergétique. Ce secteur verrait également son revenu diminuer en raison de la dégradation de ses termes de l'échange. Dans le secteur énergétique, le niveau d'activité pourrait être maintenu au niveau précédent, ce qui maintiendrait la production ou DNB réelle. La production énergétique pourrait être maintenue à condition que la quantité d'énergie produite mais non-demandée désormais par le secteur non-énergétique soit exportée. En raison de l'amélioration des termes de l'échange, le revenu du secteur énergétique augmenterait du produit de la hausse des prix par la production d'énergie.

Il ressort de cette analyse que la hausse du prix de l'énergie a eu des effets mixtes sur le potentiel de croissance de l'économie canadienne au cours de la période 1973-1977. Grâce à l'amélioration des termes de l'échange, les revenus canadiens ont augmenté. Toutefois, en raison du renchérissement de l'énergie, le potentiel de DNB réelle a eu tendance à diminuer.

Il convient de ne pas exagérer l'ampleur du recul intervenu depuis 1973 dans la croissance potentielle de la DNB (et donc, dans la croissance de la productivité) en raison de la hausse du prix de l'énergie. Etant donné que la substitution d'autres facteurs de production à l'énergie risque de prendre plusieurs années, le ralentissement de la croissance annuelle de la productivité ne devrait pas être important. L'économie canadienne supposait une croissance future de la productivité à long terme de 2 p. cent par an, contre 2.2 p. cent par le passé. La diminution annuelle de 0.2 p. cent que suppose cette projection pourrait être suffisante pour tenir compte de l'effet négatif initial de la hausse du prix de l'énergie sur la productivité à long terme.

A long terme, l'incidence du renchérissement de l'énergie sur la DNB potentielle est moins claire, pour deux raisons. En premier lieu, en raison de l'élévation du revenu réel des canadiens, il est possible que l'épargne et la formation de capital fixe augmentent, ce qui compenserait l'effet négatif initial de la hausse du prix de l'énergie sur le potentiel de DNB réelle. En pratique, ces effets secondaires prendront probablement place sur une période assez longue. En second lieu, à long terme, l'effet de la majoration du prix de l'énergie dépendra de la forme de la courbe d'offre intérieure d'énergie. Si la production additionnelle d'énergie nécessaire à la satisfaction

de conclure qu'un accroissement futur de la part de l'emploi dans le secteur des services impliquera nécessairement un ralentissement de la croissance de la productivité globale.

L'augmentation rapide du capital fixe au cours de la période d'après-guerre a contribué considérablement à la croissance de la production par travailleur. Certains se sont demandés si la faiblesse de la formation du capital, au cours de la période récente, pourrait avoir un effet négatif sur la croissance future de la productivité. Cependant, la faiblesse relative des investissements est attribuable principalement à la sous-utilisation des capacités dans l'économie canadienne. L'utilisation de la capacité en place est maintenant en hausse. Une reprise des investissements devrait résulter à mesure que l'utilisation du capital se rapproche des limites effectives de capacité. Ainsi, le retour à une croissance relativement vigoureuse et soutenue de la demande globale devrait stimuler la formation du capital et, par contre-coup, l'augmentation de la productivité du travail.

L'analyse présentée jusqu'ici ne suggère pas de raisons de prévoir pour l'avenir une croissance à long terme de la productivité plus faible que celle obtenue par le passé (2.2 p. cent par an au cours de la période 1956-1973). Cependant, l'économie canadienne indiquait que l'effet sur la productivité de la hausse du prix relatif de l'énergie en 1973-1974 n'était pas encore clair. Les résultats des études disponibles au moment de la publication de l'économie canadienne ne permettaient pas de conclure que la hausse du prix de l'énergie réduirait sensiblement la croissance de la productivité. Des recherches supplémentaires sur la question étaient nécessaires.

Une analyse plus approfondie de l'incidence du prix de l'énergie sur le potentiel de croissance à long terme de l'économie canadienne est maintenant disponible. Cette analyse est présentée dans un document technique préparé par le ministère des Finances. Bien que des travaux supplémentaires soient nécessaires sur certains aspects du problème où qu'il faille attendre un certain temps pour voir se dégager certaines tendances et obtenir des réponses définitives, on peut des maintenant tirer certaines conclusions générales.

Le Canada étant un exportateur net d'énergie, le relèvement des prix mondiaux de l'énergie intervenu au début des années 70 s'est traduit par une amélioration immédiate des termes de l'échange pour le Canada. Cela a eu pour effet d'accroître le bien-être économique du pays en augmentant le revenu disponible pour l'investissement et la consommation. Par contre, pour un pays importateur net d'énergie (comme, par exemple, les États-Unis) les termes de l'échange se sont détériorés et le revenu disponible pour la dépense intérieure a diminué.

1 Effet de la hausse du prix de l'énergie sur la croissance à long terme, ministère des Finances, novembre 1978.



est inférieure à la moyenne, ainsi qu'à une certaine discrimination en matière de rémunération.

En second lieu, la proportion féminine de la population active canadienne a augmenté constamment du milieu des années 50 au début de la décennie 70. Pendant une partie de cette période, la proportion des jeunes dans la population active s'est également accrue. Malgré cela, le taux tendanciel de croissance de la productivité du travail a progressé légèrement au cours de cette période, passant de 2.1 p. cent par an pour la période 1956-1966 à 2.3 p. cent par an entre 1966 et 1973. Il semble donc que l'effet de baisse exercé par ces tendances sur l'évolution de la productivité du travail a été négligeable ou que d'autres facteurs ont joué un rôle compensateur.

En troisième lieu, même si l'évidence disponible suggère que les jeunes sont en moyenne moins productifs que les adultes, la proportion de la population active canadienne représentée par les jeunes travailleurs devrait diminuer entre le début des années 80 et 1995. Dans la mesure où l'augmentation de la part des jeunes dans la population active a joué, par le passé, dans le sens d'un ralentissement de la productivité, leur diminution devrait avoir, au cours des années à venir, l'effet contraire, c'est-à-dire favoriser la croissance de la productivité.

Un autre argument souvent avancé est que le changement de la répartition sectorielle de l'emploi du secteur des biens à celui des services, a tendance à faire baisser la croissance de la productivité puisque la productivité augmente plus lentement dans le secteur des services. L'économie canadienne a montré que cela n'avait pas été le cas au Canada depuis le milieu des années 50. Le taux de croissance de la productivité n'a guère changé dans le secteur commercial de production des biens entre les périodes 1956-1966 et 1966-1973. Par contre, le rythme annuel moyen de hausse de la productivité dans le secteur des services commerciaux a doublé entre les deux périodes, passant de 1.2 p. cent en 1956-1966 à 2.4 p. cent en 1966-1973. Cette accélération de la croissance de la productivité du secteur des services a compensé l'effet négatif du changement de répartition de l'emploi en faveur du secteur des services sur l'expansion de la productivité globale. La productivité du travail, dans toutes les industries commerciales, s'est élevée en moyenne de 3 p. cent par an au cours de la période 1956-1966 et de 3.3 p. cent pendant la période 1966-1973.

Le secteur des services peut fort bien offrir d'importantes possibilités additionnelles de croissance de la productivité à l'avenir. Dans la mesure où ces possibilités sont réalisées, elles contribueront à compenser l'effet sur l'évolution globale de la productivité de la réallocation continue de l'emploi en faveur du secteur des services. Les observations passées pour le Canada montrent qu'il serait erroné

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1956, 1966 et 1973 ont été des années d'activité économique de pointe au Canada. La mesure de la croissance moyenne de la productivité entre ces années est l'une des façons d'évaluer la progression tendancielle de la productivité.

## 2.4 Croissance de la productivité

Une révision de ces projections entraînerait un relèvement de la croissance à long terme de la population active et de la DNB. Ce facteur tendrait à compenser l'effet de révision en baisse sur la progression de la population active et de la DNB des prévisions d'immigration nette étudiées précédemment. Il se peut donc que l'effet net de ces deux phénomènes contraires soit faible.

La croissance estimative à long terme de la DNB est obtenue à l'aide de prévisions de la croissance de l'emploi et de la progression à long terme de la production globale par travailleur. Historiquement, la hausse de la production globale par travailleurs, la productivité du travail, a résulté de l'interaction de plusieurs facteurs, dont le progrès technique, le volume de capital physique par travailleur, la réallocation de l'emploi des secteurs à faible productivité aux secteurs à productivité élevée, l'accroissement des marchés et l'amélioration quantitative et qualitative de l'éducation et de la formation de la main d'oeuvre.

La complexité des facteurs dont l'effet conjoint détermine la croissance de la productivité rend difficile une prévision de cette dernière. Des difficultés particulières se posent en raison de facteurs nouveaux - par exemple, la forte majoration du prix de l'énergie depuis 1973-1974, les prix élevés des autres ressources énergétiques et diverses normes de lutte contre la pollution - dont les effets ne sont pas inclus dans les estimations historiques de la croissance tendancielle de la productivité au Canada. En dépit de ces difficultés, le sens des effets de plusieurs facteurs importants sur la croissance de la productivité du travail peut être estimé.

Certains ont aussi soutenu que la part croissante des travailleurs secondaires - femmes de tous âges et hommes autres que ceux de la catégorie 25-64 ans - dans la population active tend à réduire la croissance de la productivité globale. Les femmes sont tenues pour moins productives que les hommes et les jeunes pour moins productifs que les adultes. Cet argument a souvent été avancé comme explication partielle de la forte baisse de la croissance tendancielle de la productivité intervenue après le milieu des années 60 aux États-Unis. Certains observateurs se sont demandés si le même phénomène a influé sur la croissance de la productivité canadienne dans le passé ou pourrait le faire à l'avenir.

Il y a plusieurs raisons de croire que le changement de composition de la population active n'a probablement pas beaucoup influé sur les gains de productivité au Canada dans le passé et n'aura probablement pas non plus un tel effet à long terme. En premier lieu, rien ne permet d'affirmer que les femmes sont moins productives que les hommes dans le milieu moderne de travail. Cette affirmation de productivité inférieure des travailleurs féminins repose souvent sur le fait que les femmes sont moins bien payées en moyenne que les hommes. Ce fait est cependant attribuable davantage à la forte proportion de travailleurs féminins dans les secteurs où la productivité globale



diminuer lentement pendant toute la période, tandis que ceux des femmes devaient continuer à augmenter, mais plus lentement qu'au début des années 70. La stabilisation projetée du taux global de participation à partir du milieu des années 80 reflétait l'incidence de l'évolution de la répartition par âge de la population en âge de travailler, plutôt qu'un arrêt de la croissance des taux de participation dans chacune des catégories d'âge ou de sexe.

Le taux de participation des hommes adultes prévu pour 1978 est très près du taux qui sera probablement enregistré cette année. Les prévisions sont également assez bonnes pour les jeunes. Pour les femmes adultes, par contre, le taux de participation prévu pour 1978 sera probablement trop faible. On s'attend maintenant à ce que ce taux de participation soit environ 44 p. cent, ce qui est sensiblement plus élevé que le taux de 41.9 p. cent en 1977. L'économie canadienne prévoyait un taux de 42 à 43 p. cent pour 1978.

Cette hausse inattendue du taux de participation des femmes adultes est le principal facteur responsable de l'augmentation marquée du taux global, qui devrait passer de 61.5 p. cent en 1977 à environ 62.5 p. cent cette année. En fait, on prévoit maintenant pour 1978 un taux de participation plus élevé que le niveau anticipé dans L'économie canadienne pour 1981.

L'évolution du taux de participation des femmes adultes en 1978 pourrait refléter en partie une réaction à court terme à une inflation plus rapide que prévue et à un chômage élevé. Elle pourrait aussi indiquer que la vigoureuse croissance séculaire de ce taux de participation au cours de la période d'après-guerre n'est pas en voie de s'atténuer. S'il en est ainsi, les prévisions de croissance du taux de participation dans L'économie canadienne seraient trop faibles.

A cet égard, il est bon de comparer l'évolution du Canada avec celle des Etats-Unis. Les taux canadiens de participation reflètent souvent les mêmes facteurs et évoluent de la même façon que les taux américains. Le taux de chômage diminue constamment aux Etats-Unis depuis la récession du milieu des années 70, tandis que l'inflation y est moins rapide qu'au Canada. Malgré cela, entre 1974 et 1977, le taux de participation des femmes adultes y a augmenté sensiblement plus vite qu'au cours de toute autre période au cours des 15 dernières années. Le redressement conjoncturel de l'économie américaine a probablement diminué les pressions économiques susceptibles d'inciter un plus grand nombre de travailleurs secondaires à rejoindre la population active. Par conséquent, la forte hausse du taux de participation des femmes aux Etats-Unis reflète peut-être davantage l'effet de facteurs à long terme. La hausse récente du taux de participation des femmes canadiennes reflète donc peut-être en partie un phénomène général à l'Amérique du Nord, de même qu'une réaction à des éléments conjoncturels.

Il est clair qu'il faut analyser plus à fond les déterminants du taux de participation des femmes. Il semble également probable que L'économie canadienne ait quelque peu sous-estimé la croissance future des taux de participation des femmes et, donc, du taux global de participation.

De 1946 à 1976, l'immigration nette au Canada a été d'environ 82,000 personnes par an, en moyenne. L'économie canadienne supposait une immigration annuelle nette de 100,000 personnes jusqu'en 1995, se décomposant en une immigration brute moyenne de 160,000 et en une émigration moyenne de 60,000. Cependant, depuis le milieu des années 70, l'immigration nette a diminué régulièrement et sensiblement, ne s'élevant qu'à 35,000 personnes selon les estimations entre juin 1977 et mai 1978. Cette baisse de l'immigration nette a reflété un recul comparable de l'immigration brute. Ce phénomène est probablement dû en partie à la langueur actuelle de l'économie. Elle est cependant attribuable également en bonne partie au resserrement des règlements d'immigration depuis le milieu des années 70, resserrement dont l'effet global a pris un certain temps à se faire sentir.

Selon la Loi sur l'immigration de 1976, le gouvernement fédéral doit déterminer et annoncer des objectifs d'immigration future. Pour 1979, le gouvernement a récemment fixé à 100,000 personnes l'immigration brute visée. Il a, en outre, déclaré que l'immigration brute ne devrait pas descendre au-dessous de ce niveau à long terme.

Une immigration brute de 100,000 personnes par an entraînerait une immigration nette beaucoup plus faible que prévu dans l'économie canadienne. A la lumière de la politique déclarée du gouvernement et de l'évolution récente de l'immigration, un niveau d'immigration nette de 50,000 personnes par an, en moyenne, semble maintenant plus réaliste. Cette diminution de l'immigration nette prévue implique une baisse de la croissance de la population en âge de travailler à long terme, et donc une réduction de la croissance de la DNB après ajustement conjoncturel.

## 2.3 Taux de participation

Les éléments qui déterminent la participation des particuliers à la population active varient sensiblement selon l'âge et le sexe. Pour prévoir les taux de participation, il faut tenir compte d'une vaste gamme d'influences économiques et sociales à long terme: par exemple, l'effet des changements des prestations de retraite; l'évolution future des inscriptions d'étudiants au secondaire et à l'université; l'évolution des taux de fécondité; le rapport entre le taux de fécondité et le taux de participation des femmes; la mesure dans laquelle une série d'attitudes et de possibilités continueront de favoriser la croissance de la participation des femmes, etc. En outre, des éléments conjoncturels à court terme, comme la réaction au chômage subi par d'autres membres de la famille ou la réaction aux pressions exercées sur le revenu familial par une inflation plus élevée que prévu, peuvent entraîner des fluctuations temporaires des taux de participation par rapport à l'évolution à long terme. La diversité et la complexité des facteurs à prendre en compte rendent extrêmement difficile la prévision des taux de participation.

L'économie canadienne prévoyait que le taux de participation à long terme continuerait d'augmenter progressivement jusqu'au milieu des années 80, pour ensuite se stabiliser pendant les 10 années suivantes. Les taux de participation des hommes, selon les prévisions, devaient



## 2.1 Croissance démographique naturelle

En 1978, certaines des variables de base sur lesquelles reposent les prévisions de croissance à long terme n'ont pas évolué tout à fait de la façon prévue. Des analyses supplémentaires ont également été entreprises. À la lumière de ces éléments, il convient de revoir les hypothèses initiales à la base des prévisions de croissance présentées dans l'économie canadienne et d'évaluer, au moins de façon préliminaire, si ces prévisions doivent être sensiblement révisées.

À long terme, le taux de croissance de la population en âge de travailler est l'un des principaux déterminants de l'expansion de l'emploi. Cette croissance de la population en âge de travailler provient de deux sources: l'augmentation naturelle de la population et l'immigration nette de personnes en âge de travailler.

Étant donné que les personnes nées au cours des 15 dernières années représenteront la croissance naturelle de la population en âge de travailler au cours des 15 prochaines années, on connaît avec une quasi-certitude cette composante de la croissance jusqu'au début des années 90. L'augmentation naturelle de la population après 1978 ne commencera à influencer sur la croissance de la population en âge de travailler qu'après 1993.

Les prévisions de croissance démographique naturelle dépendent surtout des projections de taux de fécondité. Au Canada, le taux de fécondité est tombé d'un sommet de 3.9 en 1959 à 1.83 en 1976. L'économie canadienne supposait un taux de fécondité de 1.8 sur toute la période des projections. Bien qu'en 1977 ce taux soit descendu à 1.74, il semble peu probable qu'il s'écarte sensiblement du profil supposé dans l'économie canadienne, au moins pendant les quatre ou cinq prochaines années. Les estimations de l'augmentation naturelle de la population canadienne en âge de travailler sur lesquelles reposent les projections présentées dans l'économie canadienne restent donc valables.

## 2.2 Immigration nette

Le deuxième élément de croissance de la population en âge de travailler, l'immigration nette, est plus difficile à prévoir que l'augmentation naturelle de la population. Historiquement, l'immigration brute au Canada a reflété un certain nombre de facteurs: les fluctuations conjoncturelles de l'économie canadienne qui affectent l'attraction du Canada pour les immigrants en puissance; les modifications de la politique et des règlements d'immigration; et les crises à l'étranger qui peuvent entraîner d'importants déplacements de réfugiés. L'immigration dépend, elle, non seulement de l'attrait relatif des autres pays, mais aussi du nombre d'immigrants arrivés au Canada, puisqu'une bonne partie de l'immigration constitue en fait un retour des immigrants à leur pays d'origine. L'immigration nette résulte donc des interactions de toute une série de facteurs.

Pour analyser les possibilités de croissance économique à moyen terme, le document de février évaluaît premièrement le potentiel d'expansion à long terme de l'économie canadienne. Une courbe de croissance à long terme fournit un point de référence qui permet d'évaluer la situation conjoncturelle actuelle de l'économie. Depuis 1974, l'économie canadienne a tendance à croître, en moyenne, relativement lentement. Une comparaison de la dépense nationale brute actuelle avec le niveau de production indiqué par une courbe de croissance à long terme permet d'évaluer le "déficit de production" actuel. En outre, une estimation des possibilités de croissance à long terme est essentielle à l'évaluation des taux de croissance possibles à moyen terme, à partir du niveau présent de la DNB.

Un indicateur simple mais utile de la croissance économique à long terme est la progression du produit, et de la dépense, national brut corrigé des fluctuations conjoncturelles de l'économie. L'économie canadienne a présenté des estimations historiques de l'évolution de la DNB après ajustement conjoncturel, de 1953 au milieu des années 70, ainsi que des prévisions de sa croissance du milieu des années 70 à 1995. Dans le cadre conventionnel d'analyse de l'économie canadienne, la croissance (à long terme) de la DNB après ajustement conjoncturel est déterminée par le taux de progression à long terme de l'emploi, d'une part, et de la productivité du travail, d'autre part. La croissance de l'emploi, d'après l'hypothèse habituelle à long terme, dépend de la croissance démographique naturelle, de l'immigration nette, de l'évolution des taux de participation à la population active et de l'évolution à long terme du taux de chômage.

Les hypothèses et projections de la croissance démographique et des taux de participation dans l'économie canadienne résultaient en un taux prévu d'expansion à long terme de la population active et de l'emploi passant d'une moyenne annuelle de 2.3 p. cent pour la période 1976-1981 à 1.1 p. cent en 1990-1995. Sur l'ensemble de la période 1976-1995 on prévoyait une croissance annuelle moyenne de 1.6 p. cent pour l'emploi et, pour la productivité du travail, une hausse de 2 p. cent par an après ajustement conjoncturel. En combinant les prévisions relatives à l'emploi et à la productivité, on obtenait, pour la croissance de la DNB après ajustement conjoncturel, un taux qui passait de 4.4 p. cent par an au cours de la période 1976-1981 à 3.1 p. cent en 1990-1995. En moyenne, on projetait une croissance annuelle de 3.6 p. cent sur la période 1976-1995. Bien que ces taux de croissance de la DNB soient plus faibles que ceux que le Canada a connu pendant la majeure partie de l'après-guerre, ils restent relativement élevés par rapport aux prévisions pour les autres pays industrialisés.

La troisième et dernière proposition était que la réalisation d'une reprise soutenue exigeait la coopération non seulement de tous les niveaux de gouvernements, mais aussi de tous les principaux agents économiques. Si les gouvernements peuvent faire beaucoup pour promouvoir le redressement par la politique de la demande, la politique des revenus et des mesures d'encadrement ou sectorielles, ils ne peuvent à eux seuls garantir la reprise. Cela vaut particulièrement dans le cas de l'amélioration nécessaire de la performance en ce qui concerne l'inflation. Le taux d'inflation visé dans l'économie canadienne représentait une baisse sensible par rapport aux taux d'inflation courants, et un retour aux taux observés dans les années 60. La résorption simultanée de l'inflation et du chômage constituait un défi important puisque, historiquement, ces deux taux n'ont pas évolué parallèlement lors des périodes de reprise. Sans un changement des comportements de détermination des prix et des revenus de la part des administrations publiques, des entreprises et des travailleurs, le taux d'inflation visé ne pourrait pas être atteint, et la reprise se dissiperait.

Un certain nombre de réunions ministérielles fédérales-provinciales, dont deux rencontres des ministres des Finances, ont eu lieu depuis la conférence de février dans le cadre de la poursuite des travaux d'élaboration d'une stratégie économique à moyen terme. Les Premiers ministres se réuniront prochainement pour discuter des progrès réalisés dans le domaine de la politique économique globale et dans un certain nombre de secteurs et envisager l'action future. Le présent document vise à étendre ces discussions. Il présente une revue des grands thèmes de l'économie canadienne à la lumière de l'évolution économique récente et de certains travaux additionnels sur les perspectives à moyen et à long terme de l'économie.

Le document compte six autres chapitres. Le chapitre 2 revoit les perspectives de croissance à long terme et de leurs déterminants. Le chapitre 3 résume les principales caractéristiques de la voie de reprise à moyen terme présentée dans l'économie canadienne. Le quatrième chapitre développe l'un des principaux thèmes du chapitre précédent, en étudiant les facteurs de l'évolution récente de l'inflation au Canada. Le chapitre 5 revoit les perspectives économiques à moyen terme à la lumière des développements en 1978 et des perspectives pour 1979. Le chapitre 6 examine brièvement certains développements et questions importants sur le plan sectoriel. Le dernier chapitre revoit un certain nombre de questions de politique économique et d'initiatives qui influent directement sur la performance de l'économie et la réalisation des objectifs à moyen terme.



Le gouvernement a inauguré cette année un processus d'élaboration d'une stratégie économique à moyen terme. Une série de réunions ministérielles fédérales-provinciales ont eu lieu, atteignant leur point culminant lors de la conférence des Premiers ministres en février. Bien que les travaux accomplis à ces réunions aient été analogues, en bonne partie, à ceux effectués par le passé, ces initiatives représentaient une étape importante dans l'effort d'intégration des démarches dans un certain nombre de secteurs et dans l'extension de l'horizon dans le cadre duquel les options de politique sont analysées.

Afin de fournir un cadre macroéconomique d'examen et de discussion des problèmes et de l'évolution sectoriels, le ministère des Finances a publié un document intitulé L'économie canadienne - Projections et objectifs à moyen terme. Ce document visait à établir une perspective à long terme sur le potentiel de croissance de l'économie canadienne. Il présentait aussi une voie possible de redressement à moyen terme permettant de rapprocher l'économie canadienne de son niveau potentiel de production au cours des quatre à cinq prochaines années. Ce document réaffirmait l'engagement du gouvernement fédéral à collaborer avec les gouvernements provinciaux, les milieux d'affaires, les travailleurs et d'autres groupes économiques à l'élaboration de politiques qui contribueraient à la relance et au soutien de la croissance de la production et de l'emploi à moyen terme, ainsi qu'à une réduction sensible de l'inflation et du chômage.

La voie de reprise prévue dans L'économie canadienne reposait sur trois importantes propositions. En premier lieu, L'économie canadienne soulignait que la poursuite des progrès vers la stabilisation des prix et des salaires était essentielle à la réalisation de la reprise envisagée. Une réduction sensible du taux d'inflation stimulerait la consommation et l'investissement, et contribuerait à améliorer la compétitivité des industries canadiennes, permettant ainsi au secteur extérieur de contribuer positivement à la croissance à moyen terme.

En second lieu, l'expansion de la production et de l'emploi à moyen terme devrait émaner le plus possible du secteur privé. Un engagement à la limitation des dépenses est présent à tous les niveaux de gouvernements. Il faut également que les déficits gouvernementaux, tout en fournissant la stimulation fiscale requise au début de la reprise, diminuent ensuite en proportion du produit national brut à mesure que la reprise progresse.





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En février dernier, les Premiers ministres ont lancé un processus de consultations sur une stratégie économique à moyen terme pour le Canada. Dans le cadre de ce processus, j'ai publié un document intitulé L'économie canadienne - Prévisions et objectifs à moyen terme qui visait à fournir un cadre économique global d'analyse et de discussion des problèmes et des possibilités des différents secteurs et régions du pays.

Au cours des derniers mois, mes fonctionnaires ont eu l'occasion de discuter de l'analyse et des prévisions présentées dans L'économie canadienne avec de nombreux groupes du milieu des affaires, du travail, des administrations publiques et du milieu universitaire. Une vaste gamme de points de vue ont été formulés. Nos objectifs de reprise économique visant vers une croissance accélérée avec des taux réduits de chômage et d'inflation ont semblé trop ambitieux et irréalisables à certains, tandis que pour d'autres ils n'étaient pas assez ambitieux. Malgré certaines divergences d'opinion sur le détail de l'analyse, on a généralement reconnu que ce travail avait apporté une contribution utile à la compréhension des possibilités, des défis et des problèmes auxquels les Canadiens seront confrontés à moyen et à long terme.

Les Premiers ministres se réuniront prochainement pour poursuivre leur discussion sur les perspectives économiques à moyen et à long terme du Canada. Pour aider cette discussion, j'ai fait préparer une revue des perspectives économiques à moyen terme du Canada à la lumière des faits intervenus en 1978 et des perspectives pour 1979. Il est bien connu que la situation économique peut changer rapidement et de manière imprévue. Tel a été le cas au cours des derniers mois. À certains égards et pour diverses raisons, la performance de l'économie en 1978 est inférieure aux prévisions et à la voie de redressement présentée dans L'économie canadienne. Néanmoins, des progrès sensibles ont été réalisés en 1978 dans l'établissement des conditions nécessaires à la croissance pendant les années 80. Il importe que nous travaillions ensemble à tirer parti des possibilités qui s'offrent maintenant.

Jean Chrétien  
Ministre des Finances

Novembre, 1978





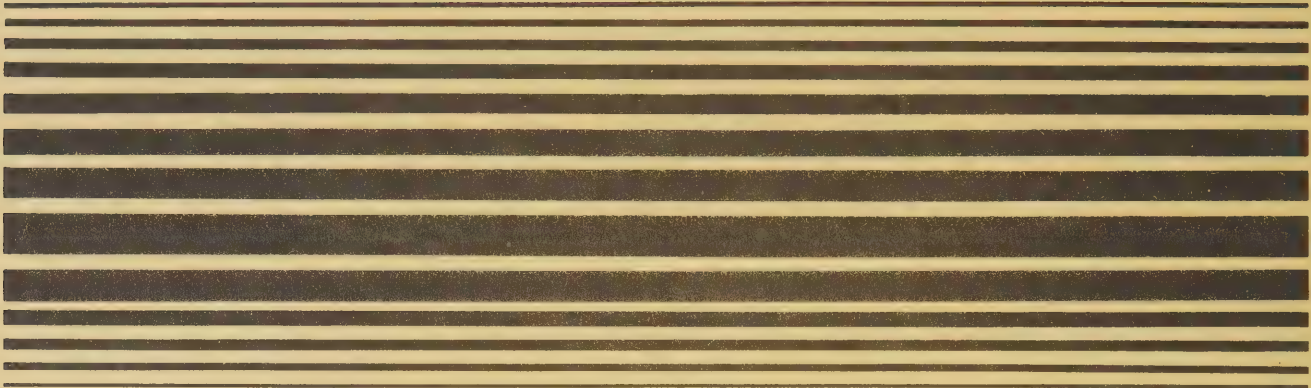
Document de travail

Conférence  
des premiers ministres  
sur l'économie

Du 27 au 29 novembre 1978

Une revue des  
perspectives économiques  
à moyen terme du Canada

Ministère des Finances  
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OF FIRST MINISTERS ON THE ECONOMY

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Communiqué of the Federal-Provincial Conference  
of Tourism Ministers

November 1978

Ottawa  
November 27-29, 1978





## COMMUNIQUE OF THE FEDERAL/PROVINCIAL CONFERENCE OF TOURISM MINISTERS

1. Ministers of Tourism met on November 10th in Ottawa to exchange views on the current status of the Canadian Tourism Industry and to consult on a number of initiatives to enhance its growth and competitiveness. The meeting, in fact, had two purposes. It served as the 33rd Annual Federal/Provincial Conference on Tourism; it also constituted a follow-up to the meeting of Federal, Provincial and Territorial Ministers responsible for tourism held on January 31, 1978 and the subsequent consideration of tourism during the discussions of First Ministers on the Canadian economy in February.
2. Ministers accepted as tabled reports from the standing committees of the Federal/Provincial Conference namely the report of the Chairman Canadian Travel Film Committee, the report of the Chairman, Tourism Research Planning Committee, the report of the Chairman of the National Advisory Committee on Manpower, Education and Training in the accommodation, food and beverage services sector as well as a separate report on the Travel Information System Project.
3. Ministers received from Statistics Canada report on tourism flows both in and out of Canada for the first nine months of 1978 as well as estimates on the tourism balance of payments picture for the calendar year. Trends were encouraging. Visits from overseas countries were increasing with notable gains in 1978 over 1977. The decline in United States visitors to Canada, very apparent in the last 3-4 years, appeared to be levelling off; travel by Canadians to the United States had declined in 1978 over the same period in 1977, a notable reversal to the increases observed in 1976 and 1977. Travel by Canadians to overseas countries while still increasing in 1978, compared with a similar period in 1977, appeared to be abating in rate of growth. The tourism balance of payments deficit for 1978 was forecasted to be approximately the same or only slightly higher than in 1977.

4. Ministers had two major subjects for consideration. One was to examine the findings and recommendations of the Tourism Industry Consultative Task Force (TICTF Report). The second was the impact of national transportation policy on tourism. The role of the Tourism Industry Association of Canada (TIAC) and its interface with governments was also discussed.
5. Provincial and Territorial Ministers deplored the absence of the Federal Minister of Transport from the Conference in view of the importance of transportation to tourism and their views that recent policy positions indicated by the Ministry of Transport were in conflict with TICTF recommendations. Ministers noted the suggestion of the Federal Minister of Transport that there be a meeting on November 22nd and accepted the date though it remained to be seen how many could, in fact, attend. Ministers expressed concern that a single meeting so close to the First Ministers' Conference on the economy would not suffice to resolve perceived issues.
6. In discussing the TICTF report, Ministers took note of a federal document "Report on Tourism" prepared as a progress report on developments since the February meeting of the First Ministers on the economy. This document is attached.
7. Ministers also took account of a federal publication Action for Industrial Growth - A First Response which set out the undertakings of the Federal Government in responding to the TICTF report. It was understood that this was a first response and that further action could be anticipated. Provincial/Territorial tourism Ministers indicated that they were completing their own first responses. Agreement was reached that officials should reconvene in 90 days to review progress made, before Ministers themselves met again.

8. Tourism Ministers noted that the report entitled A Report by the Second Tier Committee on Policies to Improve Canadian Competitiveness which examined the findings and recommendations of all twenty-three industry sector task forces, did not deal directly with tourism. Therefore, Ministers agreed that the importance of the tourism industry in Canada's economy in terms of employment (some 900,000 direct and indirect jobs), income (an estimated 10 billion dollars), regional development, taxation (an estimated 5 billion dollars), proportion of GNP (5 per cent) and the balance of payments (2 billion dollars of foreign exchange earnings) should be re-emphasized to First Ministers.
9. The Conference considered seven resolutions from the Provincial/Territorial Conference of the day previous.
10. In the seven resolutions forwarded to the Conference of First Ministers:
  - i) Provinces and Territories strongly supported the recommendation of TICTF that the 12 per cent tax be eliminated by the Government of Canada on all government and industry printed tourism literature which promotes or stimulates travel into or within Canada, but that the Government of Canada retain such tax on all materials promoting tourism travel from Canada to points outside the nation. The Federal Minister noted that this resolution had already been referred to the Federal Department of Finance with the request that the Minister of Finance respond to it in the context of his budget. Mr. Horner agreed to convey the resolution to the Federal Minister of Finance again.
  - ii) Ministers, recognizing the need for effective and efficient "communications" to sell travel both to and within Canada and noting with concern the increasing costs of providing and distributing literature in the face of decreasing budgets, urged an investigation of alternative means to provide for effective literature distribution and favoured the establishment of a low uniform postal rate for mailing of publications supportive of travel



both to and within Canada. The Chairman agreed that the concerns of Ministers in this area would be brought to the attention of the Federal Post Master General.

- iii) Ministers supported the establishment of regional information systems whose primary users would be first the consumer, and secondly, the trade in both Canadian and American markets. The Chairman noted that the CGOT would be implementing a pilot project with the trade and would collaborate with the Atlantic Provinces on a pilot regional project directed to the consumer subject to clarification of the costs involved.
- iv) Ministers requested immediate decentralization of existing services and programs by CGOT to its regional offices to allow greater autonomy and flexibility of marketing and industry development programs to more effectively reflect regional priorities and strategies. The Chairman responded to indicate that this was the intention of CGOT as time, and as resources permitted.
- v) While noting the need for:
  - a. the elaboration and maintenance of a national tourism plan;
  - b. the definition of the respective roles in tourism of governments at all levels in Canada;
  - c. mechanisms for continuing consultation and coordination amongst governments and industry; and
  - d. the establishment of a firm data base for the tourism industry.

Provincial and Territorial Ministers acknowledged the priorities as defined and supported them in principle but identified as a pre-requisite to the establishment of a national tourism plan the definition of roles between the two levels of government and the role of TIAC.

In regard to the roles of governments, the meeting agreed to establish a working group of Federal, Provincial and Territorial deputy heads concerned with tourism to develop a proposal for referral to Ministers at the Federal/Provincial Conference on Tourism in 1979. The meeting



agreed that the division of responsibilities in industry development and tourism marketing and the inter-relationships and objectives of federal and provincial advertising in markets abroad would be reviewed in this context.

In so far as the role of TIAC was concerned, Federal, Provincial and Territorial Ministers agreed that TIAC could become a mechanism for consultation and coordination representative of the industry for the planning and implementation of Canadian strategies for the marketing and development of tourism. However, it was to be further understood that TIAC was not to be the sole interlocutor with provinces and territories for provincial and territorial strategies.

They further proposed that TIAC would represent only the interests of the industry's private sector with no government membership; that it would be financed by its own members and operating subsidy provided by the Federal Government, with provincial governments subsidizing the provincial tourist associations invited to become members of TIAC; and that TIAC delegate representatives to a joint committee set up by the Canadian Conference of Tourism Officials (CCTO) with such sub-committee recommending annually Canadian strategies for marketing and the development of the tourist industry.

- vi) It was agreed that a meeting would be convened between provincial and territorial Ministers responsible for tourism and the Federal Minister of Transport on 22nd of November 1978. It was recognized that not all ministers could adjust their commitments to enable attendance. It was also agreed in principle that further deregulation of air travel to and within Canada was desirable. The Chairman agreed that this resolution would be passed to the Minister of Transport cautioning that the crux was the degree of further deregulation that was practical and practicable.
- vii) It was recommended the Government of Canada reconsider its curtailments of Parks Canada budgets which threatened early closure annually of historic Fort Louisbourg and other parks programs.

The Chairman agreed that this resolution would be referred to the President of the Treasury Board and to the Minister of Indian and Northern Affairs but noted that the Federal Government was committed to budgetary constraints. The meeting further agreed that there should be increased input on a regional or provincial basis into Parks Canada policy in general and the use of national parks for tourism in particular.

The full text of these seven resolutions is attached.

11. Ministers agreed that issues warranting further study were taxation, labour legislation, transportation, environmental regulations, procedures for tourism facilities development, marketing and industry development as noted in the Report on Tourism. They reiterated their intention to resume discussion on these issues when they next meet. Draft ends.
12. Reference to the two documents referred to in the above noted communiqué as being attached were tabled at the Federal/Provincial Conference on November 10th and are presumed as being already available to provincial delegations.

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CANADA - FEDERAL-PROVINCIAL RELATIONS

DOCUMENT: 800-9/020

FEDERAL-PROVINCIAL CONFERENCE  
OF FIRST MINISTERS ON THE ECONOMY

Communiqué of the Meeting  
of Ministers of Trade and Industry  
November 7, 1978

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JAN 30 1979

Faculty of Political Science  
University of Toronto

Ottawa  
November 27-29, 1978





COMMUNIQUE

BY MINISTERS OF TRADE AND INDUSTRY

Ministers of Industry met on November 7, 1978, to review the current industrial performance in the light of policy initiatives taken since February and to identify a number of further initiatives to enhance industrial growth and competitiveness. Ministers reached agreement on a number of substantive issues relating to the industrial economy.

Ministers first reviewed the current performance and prospects facing the industrial sector. It was agreed that, although a number of very fundamental problems remain, the sector has achieved encouraging results during the past year. It was noted that the manufacturing sector in the past year has achieved significant growth in output, employment, value of shipments, and exports.

Ministers reviewed the commitments made in the First Ministers' meeting in February 1978, and agreed that the government response to these commitments had been a positive factor in achieving better industrial performance. It was noted that federal and provincial governments had placed high priority on fiscal responsibility and expenditure restraint in line with

the First Ministers' commitment to reduce the role of government and let the private sector provide the engine for economic growth.

Ministers complimented the First and Second Tier Task Forces for recommendations whose implementation will improve our industrial economy. Federal and some Provincial Ministers on behalf of their governments tabled initial responses to the individual industry sector task force recommendations. Industry Ministers directed their Deputies to hold intergovernmental consultations by the end of January with a view to reviewing the responses to that date and to developing an effective mechanism to ensure government response to all the recommendations. This will be followed by a ministerial meeting.

Ministers considered the recommendations of the Second Tier Committee of the industry sector consultations exercise. This Committee of twelve representatives of industry, labour and academia has examined the findings and recommendations of the twenty-three Industry Sector Task Forces and presented their report to Industry Ministers on October 23.

Ministers expressed concern that the Second Tier Committee did not address fully the problems and opportunities of Small Business, many of which had been raised in the Sector Studies. It was agreed that such concerns as the shortage of

debt and equity capital, regional disadvantage, procurement policies, competition policy, de-regulation, taxation and other matters related to small- and medium-sized business should result in early action by all governments. The momentum achieved to date in enhancing the position of small business must not be lost.

The Second Tier Committee stated that the most important recommendation to come out of the industry consultative exercise was the requirement for an economic policy that places a high priority on economic growth. Industry Ministers recall that First Ministers in February of this year recognized this. Industry Ministers are of the view that the increase in government support for industry represents an opportunity that must be fully taken advantage of by investors and entrepreneurs. Industry Ministers also recognize their respective governments must still consider other initiatives to improve the business climate in Canada to provide further support to the private sector without further contributing to inflationary forces.

The Committee observed that manufacturing plays a key role in the achievement of regional development goals. The Ministers concurred that the long-run goal should be to increase the production of manufactured goods for both export and domestic consumption because of the positive impact this would have on Canadian jobs.



Industry Ministers welcomed the Committee's findings that there were a large number of issues relevant to the development of industry in Canada that business and labour members found they could agree on. Ministers were pleased to note the recognition by the Committee that public policy decision-making must remain in the hands of governments and that a consultative mechanism as such could not share this responsibility. To assist this process, however, the Committee recommends that consultations on specific issues be an on-going process. Industry Ministers agreed that a continuation of a consultative process is essential.

The Second Tier Committee made a number of specific recommendations to Industry Ministers based on the twenty-three sector Task Force reports. These recommendations are the subject of analysis and consultation between governments and as a result, Industry Ministers have decided to forward a number of agreed positions to their colleagues and to the First Ministers for their meeting on November 27. These relate to the following issues identified by the Second Tier Committee: government regulations, trade and the multilateral trade negotiations, manpower policies and labour relations, taxation, research and development, regional development, public procurement and rationalization.



With regard to the recommendations of the Second Tier Industry-Labour Committee concerning regulatory activity of governments, Industry Ministers note that the Economic Council of Canada has been mandated to study this matter by the First Ministers. In addition, Industry Ministers agreed to recommend to their colleagues and First Ministers that all governments conduct a review of key regulatory activity. They agreed to consider the feasibility of undertaking and making publicly available benefit/cost analyses before implementing major new social regulations. They should take care to ensure that appropriate social benefits are reflected in that analysis. They agreed to consult collectively to remove overlap between levels of government in a manner that is consistent with their respective jurisdictional authority.

With respect to trade, the Ministers have transmitted the Committee's views to Canada's MTN negotiators so they can be taken into full account. The Ministers agreed that, in preparation for the trading environment of the 1980's, certain of the Committee's recommendations should be acted upon as soon as possible. Specifically, greater encouragement should be given to the formation of consortia to facilitate the ability of Canadian firms to capitalize on export opportunities. Particular efforts should be made to draw consortia members from small- and medium-sized businesses and from less developed regions of the country. The Federal Government will also take steps to ensure the expeditious application of safeguard procedures including anti-dumping and countervail procedures.

Ministers noted that the Federal Government had announced certain measures to assist individual workers and firms to adjust to both the opportunities and challenges of the trading environment of the 1980's, including those resulting from the MTN. Other measures concerning specific industrial sectors have been announced over the past year by provincial governments. Others are on the way in several provinces. Ministers agreed that a co-ordinated federal-provincial industrial adjustment policy was required and undertook to participate in the development of such a policy. Ministers also agreed that an advisory committee on export promotion, comprising representatives of the Federal and Provincial Governments and of the private sector, should be established at an early date to assess government activity to promote exports and to propose possible alternative policies or programs.

Industry Ministers agreed to commend to their Labour Minister colleagues the Committee's recommendations that: training funds be reallocated to provide greater emphasis to job-oriented institutional and on-the-job training including altering wages or training allowances to encourage participation; means be explored to encourage greater private sector participation in, and the funding of, manpower training; the development of labour market policy be assisted by labour and industry with particular use being made of industry labour task forces to address the requirements of industries where manpower resources are inadequate. These steps should take into account

provincial situations. Industry Ministers generally supported these proposals and recommend their consideration by their colleagues and the First Ministers.

The Second Tier Committee urged provincial governments to harmonize labour legislation, training programs and certification practices. Industry Ministers indicated their willingness to participate in an interprovincial task force of Labour and Industry Ministers to prepare proposals for harmonization of labour market practices and legislation for consideration by First Ministers in 1979. Industry Ministers warmly welcomed the Committee's decision to establish a private sector task force to study a wide range of labour relations issues and keenly await their report.

Concerning the tax measures proposed by the Committee, Industry Ministers have forwarded these to Finance Ministers for consideration in forthcoming budgets and have urged that priority be given to measures that would most directly improve the competitive strength of Canadian manufacturing. They agreed with the Committee that the taxes imposed on corporate revenues by different countries are as crucial to the competitive capability of their firms as other cost items and should be viewed in that light.

Industry Ministers concur with the recommendations that a significant increase in the percentage of national resources directed to industrial R&D and the entire innovative process take place in both the public and private sectors. Very substantial increases in R&D in the private sector are required in particular. They noted that the Federal Minister of State for Science and Technology would be meeting the next day with his counterparts from the provinces to discuss industrial R&D in detail and would be submitting a report to First Ministers. Industry Ministers are also examining existing support for industrial R&D and the innovative process.

Industry Ministers agreed to recommend that: an expanded definition of R&D inclusive of the innovative process should be adopted for assistance programs; a special effort needs to be made to assure a higher Canadian share of the R&D activity of foreign-based companies; and there be sufficient minimum life of programs to induce a long-term commitment to R&D activity.

Discussions also encompassed the Second Tier Committee's recommendations on energy. Industry Ministers share the Committee's concern that energy prices be competitive with those in the United States in order not to put Canadian manufacturers



at a cost disadvantage. Industry Ministers agreed that transportation policy be devised in a manner supportive of industrial and regional development. Ministers agreed with the Committee that the manufacturing sector has a crucial role to play in alleviating the pattern of regional disparities in Canada.

Concerning the use of public sector procurement for industrial development, Industry Ministers agreed to recommend to First Ministers the establishment of a federal-provincial working group of interested Ministries. The group would assess the potential for co-operation between governments in using procurement practices for industrial and regional development including the potential for governments to standardize and co-ordinate purchasing design and specifications and would take into account any conclusions which might be reached by Science Ministers in their discussions about how procurement can stimulate industrial R&D. This working group would report to Industry Ministers and First Ministers in mid-1979.

Ministers agreed that major new industrial projects being planned should provide growth opportunities specifically for Canadian industry. To this end, they agreed to recommend to their colleagues that a task force of labour, industry and federal and provincial governments be established to consider industrial and regional benefits from major Canadian projects. The task force's recommendations to federal and provincial governments, which would help to guide policy

program decisions, would be presented by April 1979.

Industry Ministers discussed the Committee's findings on the question of rationalization. Their view was that the overall economic and taxation environment was the principal influence on rationalization. They also emphasized that rationalization must not take place in a manner detrimental to regional development efforts. They agreed with the Committee that any competition legislation must be designed so as to encourage rationalization while protecting public interest from market abuse. They agreed that facilities are needed to assist smaller firms to develop joint services and to permit governments to participate in assisting the rationalization process in certain circumstances. Adjustment assistance programs are being studied by both levels of government to assist industries, regions and communities affected by rationalization.

Ministers considered the issue of industrial adjustment in Canada in the 1980's. It was agreed that a co-operative and co-ordinated approach was required to handle anticipated problems, particularly those of a regional nature. Ministers noted that the Federal Government had recently made significant changes in its industrial incentive and manpower programs, and that other changes are in process. Considering that substantial efforts are required, Ministers indicated that they would review the adequacy of these measures and other initiatives that might be implemented.

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FEDERAL PROVINCIAL CONFERENCE  
OF FIRST MINISTERS  
ON THE ECONOMY

LABOUR AND EMPLOYMENT ISSUES

NOTES FOR AN ADDRESS

BY THE

HONOURABLE BUD CULLEN

MINISTER

EMPLOYMENT AND IMMIGRATION CANADA

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OTTAWA

NOVEMBER 27-29, 1978





Agenda Item 1(b): Labour Market and Employment Issues

1. Recent Labour Market Initiatives

Since the last First Ministers' Conference, a number of major steps have been taken to improve the working of the labour market and to enhance opportunities for employment particularly among young people and in those areas where finding a job is most difficult.

The passing of Bill C-27 provided the basis for using Unemployment Insurance funds in an imaginative and productive way and, in accordance with commitments made at the First Ministers' Conference, we have pursued this approach with considerable vigour.

Specifically, I would mention:

- (i) the use of UI funds to finance institutional training programs is now fully implemented;
- (ii) the 22 work sharing agreements, 15 of which have been completed; (The evaluation of the program is well underway and we will be discussing our findings with you as they become available.)
- (iii) discussions with the provinces on an experimental approach of merging the UI with Direct Job Creation; (We look forward to the implementation of one significant experimental project in each province in the coming year.)

- (iv) provision for the linkage of UI with the Job Experience Training Program which will be carried out on a significant scale in the coming year;
- (v) we further agreed at the First Ministers' Conference that immediate and high priority would be given to strengthening manpower training programs and placement programs.

I am pleased to be able to report that the Canada Employment and Immigration Commission has made considerable progress both with respect to these commitments and the recommendations of the 23 Sectoral Task Forces which were also established pursuant to the conference.

I would like to single out a few of the more important programs and the progress we have made.

- (i) We have now signed training agreements with nine provinces. These will form the framework within which we will concentrate our training programs more directly and effectively on the meeting of critical skill shortages.
- (ii) In strengthening its placement services, the CEIC is giving high priority to establishing a computerized National Job Bank to link major Canada Employment Centres in order to better match the labour demand and supply.

- (iii) The computerized career information system (CHOICES) which allows the Commission's clients to explore comprehensive, up-to-date occupational data is being expanded with implementation planned for 50 main centres across Canada in 1979-80. The Commission also plans to make CHOICES available to provinces for use in the school system.

You will be aware of the new, expanded and reoriented Employment Strategy for 1979-80. The main features can be summarized as follows:

- (i) streamlined Employment Tax Credit Program, to lower the cost of labour for new jobs;
- (ii) expanded industrial training program, including a specific element to help employers overcome critical trade skill shortages;
- (iii) expanded Job Experience Training program, to encourage employers to provide a "first job" to school leavers;
- (iv) expanded youth employment programs, to supplement the preceding;
- (v) expanded programs for disadvantaged communities and people, to foster self-initiative through the new Local Economic Development Assistance and the Local Employment Assistance programs;

- (vi) continued Economic Growth component of the Canada Works direct job creation program, to foster regional/local development opportunities; and community-based Canada Works program, more focussed on reducing the impact in communities hardest hit by unemployment;
- (vii) in addition, the Employment Strategy provides for new measures to deal with industrial change and development, including portable wage subsidies, and a more strategically directed mobility assistance program.

In all, the strategy is budgeted at \$710 million in 1979-80, to create 113,000 work or training years, involving some 368,000 people. The \$710 million will consist of \$570 million in cash expenditures, \$100 million in foregone tax revenue, and \$40 million in Unemployment Insurance funds used for Job Experience Training.

I would like to make a special plea to the provincial authorities to lend their full support in making the Employment Strategy a success. In particular, I would seek their co-operation in ensuring the maximum take-up of the Employment Tax Credit and the Job Experience Training programs. Provincial departments can add immeasurably to the success of these programs by contacting employers, explaining the programs, and seeking full employer co-operation. In addition, it will be important for the provinces to exempt UI-financed JET projects from their minimum wage rules, or the success of this program may be put in jeopardy.



Bearing in mind the desirability of having a balanced Employment Strategy which is sufficiently flexible to meet the needs of different provinces and to help mitigate the impact of expenditure restraint on the areas of highest unemployment, I put forward to my provincial counterparts at our October meeting the suggestion that we concentrate Canada Works projects even more than in the past in the highest unemployment areas.

I was pleased at the positive reaction of provincial ministers to this approach and I would hope that it will receive the support of first ministers at this conference.

Specifically, I am proposing that we change the method of allocating Canada Works funds. In essence, the proposals would involve a re-direction of funds from areas of low unemployment to areas of high unemployment through the use of, among other things, a higher labour surplus trigger.

In order to ensure that the areas of high native unemployment are fully protected, even when they occur in areas of generally low unemployment, a proportion of funds for natives consistent with their past share would be set aside before the general allocation of Canada Works funds.

I would not want to complete this account of our recent efforts to improve the operation of the labour market without a mention of the recent UI amendments.

In selecting the particular UI amendments which I introduced in Parliament, I was very conscious of the many representations I had received from all across the country and from a wide variety of groups and individuals about the negative effects of UI on the labour market.

I therefore deliberately set out to select those amendments which would achieve the most by way of decreasing disincentives to work and creating more stable patterns of work in our labour market.

After my September announcement, there were many expressions of concern on the formulation of some of the specific proposals I had made. I was particularly sensitive to the importance of the points made by representatives of the highest unemployment areas. The original formulation of some of the amendments might have had an undesirably severe impact in those areas. I therefore undertook to modify the design characteristics of the higher entrance requirements for new entrants and repeaters and to exempt entirely the highest unemployment areas from the application of the repeater provision.

I am also aware that concern has been expressed that the proposed amendments are discriminating against women. I want to take this opportunity of stressing that this is not the case. In proportional terms, the overall percentage dollar impact on men and women is almost identical: 19.8% for men and 20.1% for women. I might add in this general connection that some of the alternative amendments, which have been put forward as substitutes for our proposals (e.g. the lower benefit rate for claimants without dependents) would have a greater proportional effect on women than on men.

I am convinced that the vast majority of Canadians support the rationale and philosophy underlying the Unemployment Insurance amendments and would agree it would be preferable to allocate the resources to more positive purposes particularly to the creation of additional employment opportunities.

## 2. Long Term Labour Market Issues

I should now like to turn to some of the longer term labour market issues.

The federal responsibility for labour market programs and policies is directly related to its responsibility for the management of the national economy, its constitutional responsibility to maintain inter-regional co-operation and linkages as well as its obligation to meet international commitments. Under the constitution, the federal government of course has complete responsibility for Unemployment Insurance, although we fully appreciate its interconnection with provincial welfare systems.

The provincial role in the management of the labour market is, of course, well established in the area of education, certification, the regulation of hours and conditions of work and collective agreements. The federal government has responsibility for such matters when they fall in areas of federal jurisdiction.

We have long-established traditions of federal/provincial consultations and co-operation which have yielded valuable results. Two recent examples are the discussions which have led to the signing of training and immigration agreements with provinces. The process of consultation and co-operation must be seen as a two-way street if it is to be mutually satisfactory.

From a federal point of view, we feel it is essential that provinces consult with the federal government on those provincial programs which impact on federal programs and areas of responsibility.



With these thoughts in mind, I would like to propose that over the coming months we examine a number of critical issues and projects where we could achieve more concerted and effective efforts.

To put this in a more concrete form, the background paper poses twelve questions which in my view deserve serious joint consideration in the months ahead.

The sorts of topics contained in these questions include:

- (i) Can we arrive at a better delineation of relative roles and specializations for the federal and provincial governments in the labour market area?
- (ii) How far can we co-operate in reducing youth unemployment, meeting the problems of workers with special needs and implementing affirmative action programs?
- (iii) How can we achieve a more effective and co-operative approach to developing better labour market information, improved skill training strategies and improved worker mobility?
- (iv) What are the possibilities for umbrella agreements covering a number of program areas and enabling the funding of a mix of programs tailored to the needs of particular areas?
- (v) Looking further ahead into the 1980's, how can the Unemployment Insurance program and other social security programs be harmonised more effectively and what should be the broad directions for immigration?



- (vi) Last, but by no means least, how can we set up the consultative and co-operative mechanisms needed to improve federal/provincial/private sector relationships in the labour market?

I look forward to hearing the reaction of provincial representatives to this review of labour market issues and to the particular topics I have suggested for further consideration. Moreover, I would appreciate receiving from the provinces areas which they think might also be profitably examined.



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Communiqué on the Meeting between the Federal Minister of Transport  
and Provincial/Territorial Tourism Ministers at Ottawa  
November 22, 1978

Ottawa  
November 27-29, 1978





COMMUNIQUE ON THE MEETING BETWEEN THE FEDERAL MINISTER OF TRANSPORT AND  
PROVINCIAL/TERRITORIAL TOURISM MINISTERS AT OTTAWA 22 NOVEMBER 1978.

1. Tourism Ministers met with the Federal Minister of Transport in Ottawa on November 22nd to consider the inter-relationships of national transportation policy and tourism.
2. The discussion covered a wide range of topics including various modes of travel.
3. With respect to the air mode, the meeting discussed the desirability of further liberalization of domestic and international charter regulations. Some provinces expressed their wish that the regulations governing domestic charters be more lenient than those governing international travel. The Federal Minister responded that it was government policy that there would be no difference between the two sets of charter regulations, but, in principle, he too favoured more liberalization. Ministers noted a proposal by Quebec which supported an Ontario proposal made at the November 10th conference that favoured increased deregulation that would enable Canada's tourism industry to benefit from more incentive fares. In particular, licensed air carriers should offer innovative fares and services within and to Canada more freely and more speedily; Canadians must have opportunities to take advantage of such competitive offers to see more of their own country. However, in discussion, it became clear that some provinces insisted on prior consultation before any further regulation or deregulation.
4. Provincial Ministers expressed dissatisfaction with the increase in the air transportation tax and the differential in the application of that tax between domestic and international travel, because of the perceived adverse impact on tourism. They were concerned about the prospective increases in the cost of air travel e.g. Air Canada's recent application to CTC to increase both unit toll fares and Charter Class Canada Fares, and the resultant adverse impact on tourism.

The Federal Minister pointed out that the relevance of the air transportation tax and user charges was minimal to the operating costs of the major carriers but that general economic forces were compelling carriers to seek increased fares for better return on investment and to permit of re-equipment to remain competitive. He further pointed out that the differential on the tax between domestic and international flights was offset by higher airport charges on international flights but that the goal was to equalize the incidence of the tax. Notwithstanding, Provincial Ministers expressed the desire to have the air transportation tax eliminated.

5. Provincial Ministers expressed concern about the federal user pay policy as they perceived it. They were concerned that in application it would not reflect the different needs and circumstances of regions of Canada. They requested a clear statement. The Federal Minister explained that the policy would be applied flexibly and logically but would not apply in situations of remoteness, low population density, and would take into account the maturity of the regional transportation systems and installations.
6. While general satisfaction could be expressed about the services provided by Via Rail, there were particular problems with Newfoundland, P.E.I., and parts of Nova Scotia where substitute services by busses are not subsidized. The Federal Minister said the special program for Atlantic Canada includes a special bus assistance element and where Newfoundland is concerned Via Rail will play a role in bus service operations that are replacing rail passenger services.
7. The exceptions and flexibility said to be inherent in the user pay policy were not seen by Provincial Ministers to apply to ferry services in Atlantic Canada. Provincial Ministers expressed dissatisfaction about the consequence to CN Marine's fares and levels of service resulting from decisions made by M.O.T. as to the size of subsidy paid. The Federal Minister pointed out that

at the present time the federal government pays 100% of the operational loss of CN Marine and this, in his view, was evidence of flexibility in the application of the user pay policy to the Atlantic region. He did not, however, rule out future increases in fares because of increases in costs. Notwithstanding, the provinces of P.E.I. and Newfoundland expressed their wish that in the context of the ferry systems being an extension of the Trans Canada Highway, fares be eliminated, or, at least not increased.

8. Provincial Ministers expressed the view that there was a need for better coordination of all government programs impacting on the development of the tourism industry. Provincial Ministers expressed concern over the perceived lack of consistency and co-ordination in different federal programs affecting tourism in the various regions of Canada.
9. They appealed for improved coordination but in particular for prior discussion between the two levels of government and the private sector as appropriate, where changes in transportation policy and practices, which could impact on tourism, were in prospect. The Federal Minister indicated he would fully support the provincial suggestion that the probable best vehicle for such consultation was the existing Federal/Provincial Transportation Committees in the various regions of Canada.

Communiqué ends.





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CANADA - FEDERAL-PROVINCIAL RELATIONS

DOCUMENT: 800-9/026

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Notes for Remarks by  
Finance Minister Jean Chrétien  
to the  
First Ministers' Conference on the Economy:  
"An Economic Overview"

Canadian Government Conference Centre  
Ottawa  
November 27, 1978

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I am pleased to open the discussion on this item of the agenda. This is the occasion when we can look over the whole range of issues relating to our economic prospects, problems and policies.

We have learned from hard experience that the big levers of economic policy - monetary policy and federal fiscal policy - cannot by themselves achieve our agreed objectives of a sustained growth of output and employment, a reduction of unemployment and a reduction in the rate of inflation. In fiscal terms, the provincial governments taken together are now as large as the federal government, so they have to share in the task of economic management. Moreover, a wide range of structural, industrial and regional policies is required, as the agenda for this meeting demonstrates. Both levels of government have a contribution to make, across a very wide range of issues.

It is not only governments which must work together and share responsibility in the pursuit of our economic objectives. We have worked hard to include business and labour in this partnership.

The February Conference of First Ministers laid down the broad outlines of a medium-term economic strategy. We proposed ambitious targets - a real growth rate averaging about 5 1/2 per cent per year, employment advancing to lower the unemployment rate to about 5 1/2 per cent in 1981, with inflation reduced to about 3 1/2 per cent by that year. All of this was projected within a consistent framework of developments on the price-wage front, the components of income and demand growth and the external balance.

Today, it is clear that we have not been able to launch ourselves fully on the medium-term recovery path. This year, the growth rate looks at best as being only about 4 per cent, and for next year, with widespread

expectations of a slowing down in the United States, my recent budget forecast 4 - 4 1/2 per cent growth. A substantially higher rate of expansion would thus be required in 1980 and 1981 to achieve our target over the four-year period.

Such an acceleration of growth has been experienced in previous post-war recoveries, and we should not underestimate the expansionary forces that are now at work in the Canadian economy. But both realism and the basic objective of achieving sustained and stable growth through the next decade require some adjustment of our medium-term targets and expectations. Essentially, however, this involves only some stretching out of the recovery period. I still believe that the pattern of expansion previously outlined provides a useful guide to a medium-term economic strategy into the early 1980s.

Although we have encountered some setbacks this year, I am convinced we are getting the fundamentals right. In particular, I think the broad consensus reached on economic policy last February - both at the broad aggregative level and in more specific situations - was clearly headed in the right direction.

First Ministers agreed in February that the Bank of Canada's policy of gradually reducing the growth of the money supply was consistent with the objective of bringing the desired growth of output and employment at declining rates of inflation.

There was also agreement that the trend of government expenditure growth should be held on average to less than the trend growth in the value of the gross national product. There seems little doubt that this goal set in February will be collectively achieved. While the process is painful and many desirable services are having to be curtailed, I think we will end up with more efficiency in government and leave more room for the private sector.



The private sector can only take up this room, of course, if Canada is competitive, and here too we have made great progress. Wage increases have come down from 15 per cent to 6 per cent in the three years of the Anti-Inflation Program. The decline in the exchange rate has gone a long way to overcome the losses in our competitive position which we incurred earlier.

We agreed in February that the achievement of our medium-term objective is dependent upon sustained reduction in the rate of increase of prices and costs. I hold this view even more strongly now. Let there be no misunderstanding on this essential point. If our costs get out of hand again, we will not get the growth we need and we will not get the rate of unemployment down.

Our immediate objective is to get through the recent bulge in the consumer price index caused by food prices and the decline of the dollar without triggering a wave of domestic cost and price increases. If we succeed in that, the increase in the CPI should drop back to 6 per cent in the course of next year. But I want to emphasize that we cannot stop there. We must not relax our determination to keep the rate of inflation coming down.

The Centre for the Study of Inflation and Productivity, set up at the request of First Ministers, is now fully operational. On the prices and profits side, its report notes that the improved level of profits should enable firms to exercise restraint in pricing. On the compensation side, the report confirms the view that post-control settlements are showing only a very modest acceleration, despite the recent large increases in the cost of living. I want to express my appreciation for the responsible attitude of labour and management.

The report also shows that public sector settlements are coming in below private sector settlements. This is in conformity with the conclusions of the February meeting. It is our intention to proceed with the amendments to the Public Service Staff Relations Act to give effect to our policy of comparability on a total compensation basis. I look forward to hearing more about the steps being taken by the provinces in this regard.

I think we should all recognize, however, the pressures there are on wages and salaries as a result of recent price increases. It is hard for people to understand that they cannot be fully protected against the impact of higher food prices and higher prices of other imported goods. Real incomes have fallen in 1978, though they are still much higher than they were in 1975.

The main thrust of my budget was to ease these pressures. Generous indexing, the increase in the employment expense deduction and the cut in UIC premiums will mean that employees will receive larger pay cheques even at present wage rates. I cut the manufacturers' sales tax by 3 points in order to have a direct impact on the cost of living.

I would hope that there could be agreement at this conference on the deferment of the January 1 increase in the domestic oil price. This would have as large an effect on consumer prices as the sales tax cut.

I also expect the private sector to pass on the federal sales tax cut to consumers, and generally to be as competitive as possible in their domestic pricing.

Employment has risen even more rapidly than was projected in the medium-term strategy. In October, 362,000 more Canadians were at work than a year ago. Virtually all of these jobs have been created in the private sector, 110,000 in manufacturing alone. But the labour force has also

grown rapidly. So unemployment remains much too high. But at least it has been stabilized - the October figure of 8.2 per cent was in fact the lowest in more than a year.

It now looks as if exports have risen this year more rapidly than in the medium-term projections, and imports have risen less rapidly. While it will be difficult to make the same gains next year since the U.S. economy is expected to grow more slowly, we have laid the basis for increasing our share of markets at home and abroad.

There was not much increase in real business investment this year, but there is now clear evidence that it will pick up in 1979. We could get very close to the 5 1/2 per cent growth rate for non-energy investment projected in the medium-term strategy. Some of the large energy projects, like the gas pipeline, are not moving ahead as early as had been expected, but they can be expected to provide a major stimulus in 1980 and beyond.

We can claim therefore that we are getting the fundamentals right, and that foreign trade and business investment are beginning to emerge as the leading forces in the expansion. The growth rate and the growth pattern set out in the medium-term recovery path still appear to be sound, even though we are unlikely to achieve them as quickly as we had hoped.

This brings me to the question of short-term fiscal stimulus and the question of joint federal-provincial approaches in this area.

I have been very concerned about slow growth and high unemployment and have successively reduced taxes to stimulate the economy. Partly as a result of this, the federal government is running very large deficits by historical standards while the provincial governments taken together are running rather small deficits. Of course there are wide differences in provincial situations, because of persistent regional disparities and



the very unequal distribution of resource revenues. Alberta has a very large surplus and British Columbia and Saskatchewan have small surpluses, primarily because of their revenues from oil and gas. The Atlantic provinces are much less well off and indeed have very little fiscal flexibility. The central provinces occupy an intermediate position.

Disparity in resource revenues raises very difficult issues. I would raise the question of whether the recipient provinces can do more to recycle their resource revenues and thereby help other provinces or finance major energy projects of national importance. In doing so, I recognize the contribution that Alberta has already made by lending to other provincial governments.

Among those provinces which are still in deficit, there is a desire to balance the budget. This is a commendable goal, but the question is when it should be achieved. In my view, we all can and should reduce our deficits when the economy is growing strongly, but efforts by provincial governments to balance their budgets too quickly would be inconsistent with the medium-term strategy. I think the provinces must be prepared to accept a share of the responsibility for economic performance that is commensurate with their fiscal size and their concern for growth, unemployment and inflation.

It will not be enough, however, to achieve the right setting of fiscal and monetary policy. The medium-term economic strategy requires also the development of a wide range of structural policies which require a high degree of federal-provincial cooperation. They constitute much of the agenda of this conference.

A number of the measures in my budget were directed at important structural problems. We will be discussing mining later, but I would note now that there has been extensive discussion with the provinces on mining taxation, and I was able to take the lead in improving the situation with the



confident expectation that the provinces would be doing their part. We have also had useful discussions on the pulp and paper industry, and I believe that the enrichment of the investment tax credit and the pollution control measures will facilitate the programs being developed by provincial governments. These are just some examples. My budget provided further tax incentives to investment, to research and development, to regional growth, to transportation and to housing.

We announced in September our plans for restructuring unemployment insurance and we are working hard to improve our direct employment programs and our manpower training and mobility programs. This is an area where provincial jurisdiction is extensive and provincial policy is therefore of critical importance. I believe there is a need to adapt our whole system of education and manpower training to meet the needs of today, and I will be extremely interested in learning what actions the provincial governments have in mind.

When we come to government regulations, both levels of government have an obligation to lighten the burden on the private sector without sacrificing essential objectives.

Turning to industry and tourism, action by both levels of government is essential if we are to make the most of the opportunities which will present themselves as a result of our improved competitiveness and the MTN. Tourism provides a good example of a sector which clearly benefits from such broad economic forces as the decline in the exchange rate. But it can also benefit from such specific provincial actions as the tax cuts on hotels and restaurants and the adaptation of the minimum wage to the particular circumstances of the industry.

In the further development of our structural policies, we will be building on a strong foundation. The prospects for many of the sectors of the economy are brighter than they were in February. The industrial production

index jumped sharply in September. Manufacturing has turned up strongly this year. This is evident in the statistics of output, employment, new orders. Capacity utilization has now reached the level of 87.45 per cent.

The outlook for our primary industries is also brighter. Metal mining has been the softest spot in the economy this year, but the industry appears to be benefitting from firmer prices and the decline in the dollar. Farm cash receipts for the first nine months of this year are up 14.3 per cent, largely as a result of higher prices and good crops. Fish catches are improving already as a result of the 200-mile limit, and there is great potential for development in this industry which will be of particular benefit to the Atlantic Provinces.

The outlook for energy self-reliance has improved considerably. Higher prices and conservation programs are leading to more efficient and economical use. Supply prospects are improving for coal and uranium as well as oil and natural gas. We can look forward to being a net exporter of energy for many years to come. For all the primary industries, federal-provincial co-operation and interprovincial co-operation are of the essence.

I wanted to end on this more optimistic note. We continue to have difficult problems. We will continue to have difficult policy choices to make. We may not be able to achieve our medium-term goals as early as 1981. But the thrust of our medium-term strategy is working, as we have seen in the pattern of expenditure growth and sector expansion.

Our task is to work even more closely together across a wide range of policy areas in order to achieve the economic goals we have in common.

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Notes and Background Material  
for a Statement on

CANADA'S MANPOWER STRATEGY

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30 1979

Faculty of Management Studies  
University of Toronto

The Honourable William G. Davis  
Premier of Ontario

to the  
Conference of First Ministers on the Economy  
November 27-29, 1978





CANADA'S MANPOWER STRATEGY  
(Summary)

Canada needs innovative policies to link the growing need for industrial and business skills with the increasing supply of unemployed youth. Nearly one-third of Canada's unemployed are in Ontario.

- Unemployment rates amongst youth have been growing relative to that for adults over the past decade.
- Over one-third of unemployed youth have never held a job or have no immediate work experience.
- Immigration of craftsmen from abroad has been declining, and the age distribution of Canada's craftsmen is skewed towards older workers.
- Canada has a large and growing deficit of over \$1.3 billion on the import of business services such as marketing and management know-how.

The federal government has announced amendments to the Unemployment Insurance Act which will reduce its contributions by \$580 million. The burdens on the private sector have been increased substantially despite temporary premium cuts.

The federal government agrees on the need to develop innovative uses for the federal contributions to UI, but has limited its efforts to \$40 million and one pilot program per province.

Ontario proposes using a substantial part of the over \$1.7 billion federal contribution to the UI fund for job creation and skill training for the unemployed. Proposals include:

- a temporary wage subsidy to offset the inexperience of young people;
- a strategic disbursement of UI funds to offset temporary economic setbacks;
- UI funding of worthwhile projects of lasting social and economic benefit to the community;
- increase skill training by improving or extending UI benefits to trainees.

The Ontario view is that while unemployment insurance must remain a substantial part of a national manpower strategy, a major redirection of federal contributions to the UI fund could create something of lasting value to the community which is now simply lost.



## INTRODUCTION

The structure and characteristics of the Canadian labour markets have changed considerably since the late 1960's. As a result of demographic, institutional and social changes, large numbers of youth and adult women have entered the work place. While the challenge of absorbing the bulge has been met with considerable success, youth in particular still bear a disproportionate share of the unemployment burden.

Canada's employment strategy should shift some of the current spending on manpower and income maintenance away from short-term cushioning of the unemployed to increasing their long-term employability. By underwriting the expansion of industrial and business skills, a manpower strategy can be directly linked to an industrial growth strategy that promotes the development of indigenous technological and business capabilities for internationally competitive industries.

## CANADA'S UNEMPLOYMENT

The unemployment rate has risen steadily during the 1970's despite rapid employment growth. Underlying the deterioration in the overall rate is the significant change in the unemployment profile. Youth have experienced relatively greater difficulty in finding employment than adults. The ratio of youth to adult unemployment rates in Canada has been on an upward trend since 1969, culminating in unemployment rates amongst youth in 1978 almost 2.5

times that of adults. This has serious implications for both our economy and our society:

- Inability to obtain work experience now will make it difficult for youth to participate fully when the economy picks up in the near-term.
- Lack of personal development could lead to negative attitudes towards employment and encourage the acceptance of dependency as a way of life.
- As today's youth move into the older age categories by the mid-1980's, they will form an increasingly greater proportion of the prime-age manpower supply on which the economy depends most heavily to produce goods and services. Thus, the pool of skills acquired by present youth will be crucial in determining future economic growth.

The persistence of high youth unemployment is due primarily to the enormous increase in labour force entrants. In addition, institutional rules on job rationing, such as seniority and wage inflexibilities, work against the young. Youth unemployment is not due to just a lack of available jobs or rules that discriminate against them, however, but lack of marketable skills and, sometimes, unduly high wage expectations relative to productivity. Over one-third of unemployed youth have never held a job or have no immediate work experience.

Despite current high unemployment in the labour market, there is mounting evidence that many industrial skills are in short supply in Canada. Moreover, Canada's historical tendency to recruit craftsmen from abroad is now being reduced by both improved economic conditions in those countries which traditionally supplied our needs



and by tighter immigration policy. Moreover, the age profile of today's craftsmen suggests that Canada will soon face additional pressure in meeting requirements in many skills.

Canada has a large and growing deficit in the import of managerial, technical and marketing services. In 1977, the deficit on business services was over \$1.3 billion. This deficit exists at the same time that Canada has a growing number of unemployed university and college graduates.

Innovative policies are required to link the growing need for industrial and business skills with the increasing supply of unemployed youth. In addition, a strong commitment is required on the part of employers, governments and community agencies to develop information on manpower needs and to guide and train people to meet the changing skill requirements of the economy.

#### THE FEDERAL STRATEGY

The federal government has recently announced a short-term manpower strategy as part of its restraint and redirection exercise.

The primary thrust of the strategy is to tighten the Unemployment Insurance program, thereby blunting the rapid rise in program costs experienced since 1975. Only a modest portion of the anticipated savings, however, has

been used to augment earlier planned federal expenditures on positive employment and skill training programs.

- Federal employment program costs will total \$710 million in fiscal 1979-80. Outlays will be \$145 million above earlier estimates.
- Youth-specific programs will receive \$225.7 million, or 32 per cent of the total employment strategy - including the modest rechannelling of \$40 million in UI funds to subsidize private sector jobs for young people view the Job Experience Training program.
- Only \$101.5 million in the strategy will be spent exclusively on skill training. These outlays will be supplemented by an unspecified amount of general manpower training expenditures.

#### UNEMPLOYMENT INSURANCE

Amendments to the Unemployment Insurance Program proposed by the federal government would:

- require some claimants to work longer before qualifying for benefits;
- require high-income recipients to repay a portion of the benefits received;
- reduce the current rate of benefits to 60 per cent of maximum insurable earnings from its present 66.7 per cent; and
- lower the federal contribution to the program by transferring a greater portion of total costs to the private sector.

Recent federal budget moves will lower UI premiums by a 10 per cent cut in 1979. The reduction, however, obscures the increase in the private sector burden, also

effective January 1, 1979, resulting from an expansion in its obligations for UI program costs. Next year's premium reductions have been financed principally by running down the UI fund's accumulated surplus, built up through excessive contributions by the private sector in previous years. Most of the savings from a tighter UI program are being absorbed by the federal government; in fiscal 1980-81, federal savings are expected to be \$885 million while the private sector's contribution will be only \$50 million lower than otherwise.

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PRIVATE SECTOR FINANCING OF THE UI PROGRAM,  
AND CUMULATIVE SURPLUS, 1976-1978  
(\$ Billions)

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	1976	1977	1978
Private Sector's Share	2.2	2.3	2.4
Collections from the Private Sector	2.5	2.5	2.6
Cumulative Surplus of the UI Account	0.2	0.4	0.6

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Source: Federal Department of Manpower and Immigration for 1976-1977 data, and Ontario Ministry of Treasury and Economics estimates for 1978.

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The existing surplus is expected to be fully depleted by 1981 at new premium levels. Given normal increases in program costs over this period, premiums would then have to jump 14 per cent for the private sector to fully cover its enlarged share of the cost burden. The cumulative surplus on the UI account is being used to finance a temporary reduction in private sector premiums and mask a substantial increase in private sector obligations for UI costs.

#### MORE APPROPRIATE POLICY DIRECTIONS

Canada's manpower policies should focus increasingly on the rising difficulty faced by particular groups in the labour force in developing the skills and the experience necessary to find and retain jobs. In particular, there is a need to recognize that one of the principal advantages of UI benefits -- to provide time for an unemployed individual to look for a job -- has for many a limited pay-off.

- Among youths, where unemployment levels are particularly high, the primary need is for a chance to "learn-by-doing". Ontario claimants available for work in the 15-24 age group averaged 86 thousand this year.
- In high unemployment regions, alternative job opportunities are scarce. An average 90 thousand UI recipients in Ontario available for work reside in high unemployment areas -- areas where the unemployment rate exceeds the provincial average by more than 25 per cent.



Recognition of the limited benefits which UI payouts provide to many recipients suggests that the announced redirection of \$40 million of UI funds towards subsidizing wage rates and financing effective training will be inadequate. A well-designed program could improve the near-term employability of participants while benefiting their communities. Faster absorption of the pool of unemployed labour offers the potential of reducing over time the federal government's contribution to the UI account.

- A temporary wage subsidy could offset the inexperience of young people, opening up opportunities to acquire the skills, contacts and references necessary to hold unsubsidized jobs in the future.
- Where a temporary economic crisis disrupts viable employment patterns, a strategic disbursement of UI monies could maintain a work force intact and hasten its re-employment.
- UI assistance to employers undertaking skill training programs would underwrite some of the employers' training costs as an essential step towards increasing the degree of skill training in Canada.
- UI unemployment subsidies could lever additional earnings from private employers.
- UI funding of worthwhile projects would create lasting social and economic benefits for the community.

Canada has traditionally relied heavily on immigration to supply skilled tradesmen. With the flow of immigrants declining, there is a need to expand existing training programs to ensure that acute shortages in certain occupations and skills do not occur. Domestic firms should be encouraged to undertake apprenticeship

and on-the-job training in skilled trade occupations. Incentives, in the form of wage subsidies, could be financed by UI monies.

- UI claimants could be encouraged to take institutional training by topping up or extending existing UI benefits.
- Less than 3 per cent of UI claimants in Ontario are involved in "retraining" programs, mainly in an institutional setting.

Ontario supports the unemployment insurance program as an essential part of Canada's manpower strategy. Nonetheless, the federal contribution of public funds to subsidize the fund will likely amount to over two billion dollars this year while federal direct job creation expenditures will total only about \$500 million.

In February, First Ministers recognized the need to seek innovative uses of unemployment funds for job creation. Federal initiatives have subsequently proceeded on a severely restrained pilot project basis. Projects are limited to one per province, despite the fact that nearly one-third of Canada's unemployed reside in Ontario. Meanwhile, significant opportunities exist to use public funds more flexibly in bridging this gap between the skill and experience needs of many Canadians and income support through UI payments.



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Notes for

OPENING STATEMENT

by

The Honourable William G. Davis  
Premier of Ontario

to the  
Conference of the First Ministers on the Economy  
November 27-29, 1978





MR. CHAIRMAN, IT IS NINE MONTHS SINCE WE MET TO  
DEFINE AN ECONOMIC DEVELOPMENT STRATEGY FOR CANADA.

IN MY VIEW, ALTHOUGH WE CAN ACKNOWLEDGE THAT THERE  
HAS BEEN PROGRESS IN PUTTING SOME NEW POLICIES INTO PLACE,  
WE CANNOT NOW SIT BACK AND RELAX. MANY OF THE FEDERAL  
GOVERNMENT ACTIONS OF THE PAST NINE MONTHS HAVE BEEN BY WAY  
OF EMERGENCY REPAIRS TO THE ECONOMY. WE STILL HAVE A LOT  
TO DO IF WE ARE TO ENSURE THAT OUR ECONOMY IS FULLY WORLD  
COMPETITIVE. ONLY THEN CAN IT MOVE NATURALLY AND EASILY  
INTO HIGHER LEVELS OF GAINFUL EMPLOYMENT.

SHARING RESPONSIBILITY FOR ECONOMIC GROWTH

LAST MONTH, FIRST MINISTERS MET TO DISCUSS CONSTITUTIONAL ISSUES, AND AMONG THOSE ISSUES WAS THE MATTER OF THE DIVISION OF POWERS BETWEEN THE FEDERAL AND PROVINCIAL LEVELS OF GOVERNMENT.

THE COMPLEXITY OF THE FEDERATED SYSTEM BY WHICH WE MANAGE ECONOMIC GROWTH IN CANADA DEMANDS A CLEAR AND LASTING SOLUTION TO THE PROBLEMS SURROUNDING THE DIVISION OF POWERS. AT THE PRESENT TIME, OUR STRUCTURES INVITE TOO MUCH UNILATERAL ACTION, CONFRONTATION, WASTE, DUPLICATION AND BUCK-PASSING BY ALL LEVELS OF GOVERNMENT. COMPETENT ECONOMIC MANAGEMENT OF CANADA'S AFFAIRS NOW REQUIRES FEDERAL-PROVINCIAL ACCORD ON THREE THINGS:

FIRST, IT REQUIRES US TO KEEP OUR AGREEMENT ON THE OBJECTIVES OF THE STRATEGY AND ON THE TARGETS BY WHICH WE WISH TO JUDGE OUR PERFORMANCE.

SECOND, IT CALLS FOR AGREEMENT ON HOW WE ARE TO PUT THE STRATEGY IN MOTION. TO DO THIS WE SHALL NEED A CLEARER DIVISION OF POWERS AND GOOD CONSULTATION. THESE ARE CRITICAL TO THE TASK OF CREATING GROWTH AND MORE JOBS IN CANADA. I CANNOT SAY THAT WE ARE CLOSE TO A SOLUTION ON THIS MATTER ALTHOUGH I AM OPTIMISTIC THAT WE CAN REACH AGREEMENT ON HOW TO DIVIDE THE RESPONSIBILITY.

THIRD, IT REQUIRES STEADINESS AND CLARITY IN POLICY ACTIONS. GROWTH PROCEEDS DIRECTLY FROM A SENSE OF TRUST IN THE FUTURE. IF GOVERNMENTS CHANGE COURSE TOO OFTEN OR ARE UNCLEAR IN THEIR INTENTIONS, THE CONSEQUENCE IS A LACK OF CONFIDENCE, WHICH BREEDS UNEMPLOYMENT AND STAGNATION.

MR. CHAIRMAN, I AM CONFIDENT THAT WE CAN MEET THE TEST OF THESE THREE CRITERIA. THE FEDERAL GOVERNMENT HAS ALREADY ESTABLISHED CERTAIN ECONOMIC TARGETS WHICH FIRST MINISTERS AGREED TO LAST FEBRUARY. YOU WILL RECALL THAT IN OUR COMMUNIQUE THERE WERE TWENTY-SEVEN AREAS OF SPECIFIC ACTION WHICH WE AGREED TO START ON BEFORE WE MET AGAIN.

#### ACTIONS SINCE FEBRUARY

AT THIS CONFERENCE, I BELIEVE WE HAVE TO REVIEW THE PROGRESS WE HAVE MADE IN IMPLEMENTING THE PROGRAM OUTLINED IN THAT COMMUNIQUE. I THINK WE ALSO SHOULD AGREE ON WHAT FURTHER ACTION IS NEEDED TO CARRY FORWARD THE IMPLEMENTATION OF AN ECONOMIC DEVELOPMENT STRATEGY. OUR OBJECTIVE HAS TO BE THE CREATION OF MANY MORE PRODUCTIVE JOBS FOR CANADIANS, AND EQUALLY AS IMPORTANT, A BETTER REGIONAL DISTRIBUTION OF INCOME THROUGHOUT THE COUNTRY ON A MORE EFFICIENT BASIS THAN WE HAVE NOW.

SINCE THE FEBRUARY CONFERENCE, I HAVE TALKED WITH MANY PEOPLE WHO ARE GENUINELY CONCERNED THAT THESE CONFERENCES CONTINUE AND THAT THEY BE MEANINGFUL AND PRODUCTIVE. THERE IS STILL A CERTAIN APPREHENSION THAT THE GOAL WILL NOT BE ACHIEVED.

CANADIANS ARE STILL WORRIED ABOUT THE FUTURE AND ABOUT THE CAPACITY OF OUR FEDERAL SYSTEM OF GOVERNMENT TO HOLD TO A STEADY AND DEPENDABLE PROGRAM OF ECONOMIC MANAGEMENT. PERSONALLY, I HAVE NO DOUBT THAT FIRST MINISTERS CAN DO THAT, AND I ALSO BELIEVE THAT WE CAN DO IT IN A MANNER WHICH CREATES A STRONGER CANADA AND DISTRIBUTES THE NATIONAL WEALTH MORE EFFECTIVELY BETWEEN THE REGIONS.

BUT I DO BELIEVE THAT CANADIANS WANT FIRST MINISTERS TO MOVE CONFIDENTLY AND DECISIVELY TO IMPLEMENT A NATIONAL ECONOMIC DEVELOPMENT STRATEGY.

MR. PRIME MINISTER, THERE HAVE BEEN ACHIEVEMENTS, AT BOTH LEVELS OF GOVERNMENT. THE JOINT INITIATIVE WE UNDERTOOK TO MEET STIFF INTERNATIONAL COMPETITION FOR THE NEW FORD AUTOMOBILE PLANT IS AN EXAMPLE OF THAT.



OUR TWO GOVERNMENTS HAVE DISCUSSED THE REALLOCATION OF UNEMPLOYMENT INSURANCE FUNDS FOR JOB CREATION AND MANPOWER TRAINING. ONTARIO HAS SOME RESERVATIONS ABOUT THE EFFECTIVENESS OF THOSE MEASURES AS THEY NOW STAND, BUT, I AM PLEASED TO SEE DEFINITE PROGRESS EMERGING IN THAT AREA.

ONTARIO WAS THE FIRST JURISDICTION TO INTRODUCE A "SHOP CANADIAN" PROGRAM AND I AM GLAD TO SEE THAT THE FEDERAL GOVERNMENT HAS ALSO MOVED POSITIVELY IN THIS FIELD.

IN ONTARIO WE HAVE FOLLOWED THROUGH ON THE FEBRUARY COMMUNIQUE IN A NUMBER OF WAYS. OUR SPENDING AND HIRING PROGRAMS ARE UNDER TIGHT CONTROL AND WE INTEND TO MAINTAIN THAT POSTURE. WE ALSO INTEND TO SWITCH MORE FUNDS INTO ECONOMIC DEVELOPMENT AS THEY BECOME AVAILABLE. WE HAVE ESTABLISHED AN ECONOMIC CONSULTATIVE PROCESS WITH BUSINESS AND LABOUR LEADERS WHO HAVE WORKED ON REFINEMENTS TO AN INDUSTRIAL STRATEGY.

ONTARIO HAS ALSO PARTICIPATED EXTENSIVELY IN THE JOINT WORKING GROUPS EXAMINING POLICIES FOR TWENTY-THREE MAJOR SECTORS. THIS WILL BE REFLECTED IN ONTARIO'S POSITION AT THIS CONFERENCE. WE HAVE ALSO SUBMITTED TO THE FEDERAL GOVERNMENT THE RESULTS OF OUR EXAMINATION OF AN INDUSTRIAL RESPONSE IN ANTICIPATION OF THE CONCLUSION OF THE GENEVA TRADE NEGOTIATIONS.

IN JUNE OF THIS YEAR, I CALLED A CONFERENCE OF PROMINENT ONTARIO BUSINESS, LABOUR AND EDUCATIONAL LEADERS, TO DISCUSS WAYS OF IMPROVING THE JOB SKILLS OF OUR LABOUR FORCE.

IN ADDITION, YOU AND I, MR. PRIME MINISTER, HAVE EXCHANGED CONSIDERABLE CORRESPONDENCE, MOST OF IT NOW PUBLIC, ON A WIDE RANGE OF FOLLOW-UP ITEMS. WE HAVE NOT ALWAYS AGREED ON THE SOLUTIONS, BUT AS A RESULT OF THE EXCHANGE, WE AT LEAST HAVE A BETTER UNDERSTANDING OF THE POTENTIAL FOR WORKING TOGETHER TO IMPROVE OUR ECONOMIC PERFORMANCE. THIS IS TRUE FOR AREAS AS DIVERSE AS THE USE OF U.I.C. FUNDS FOR JOB CREATION, IMPROVING THE NATIONAL RAILWAY SYSTEM, BETTER MANPOWER TRAINING, THE PROVISION OF ADJUSTMENT ASSISTANCE TO MEET TARIFF CHANGES ARISING FROM THE TOKYO ROUND, ACCELERATING ENERGY INVESTMENTS, AND, STEPPING UP THE LEVEL OF INDUSTRIAL RESEARCH AND DEVELOPMENT.

#### ONTARIO'S FIRST PRIORITY

THE GOVERNMENT OF ONTARIO IS DETERMINED THAT THE INDUSTRIAL STRATEGY OF THE NATION BE OUR FIRST ECONOMIC PRIORITY FOR THE NEXT FEW YEARS. I SEE NO ALTERNATIVE.

ALTHOUGH WE MAY FORESEE OVER THE HORIZON A NEW POST-INDUSTRIAL SOCIETY, THE NEED FOR MORE INDUSTRIALIZATION HAS NOT YET PASSED. IN MY VIEW, ONE OF THE FAULTS OF FEDERAL ECONOMIC POLICY HAS BEEN THE TREATMENT OF INDUSTRIALIZATION AS A NATURAL PROCESS THAT WOULD LOOK AFTER ITSELF.

NOTHING COULD BE MORE THREATENING TO THE ECONOMIC AND SOCIAL STABILITY OF THE NATION THAN THE CONTINUATION OF POLICIES BASED UPON THIS MYTH. WE ARE, AT THIS POINT IN OUR NATIONAL ECONOMIC HISTORY, LIVING WITH THE CONSEQUENCE OF THAT KIND OF THINKING. WE ARE ALSO LIVING WITH THE CONSEQUENCES OF TOO MANY FUNDAMENTAL CHANGES IN ECONOMIC POLICY OVER THE PAST DECADE.

FRANKLY, INCOME REDISTRIBUTION, REGIONAL DEVELOPMENT AND THE EQUALIZATION OF BASIC SERVICES ARE OBJECTIVES WHICH MUST BE REALIZED AND IMPROVED IN THEIR OWN RIGHT, BUT THEY MUST NOT NOW HAMSTRING THE DEVELOPMENT OF AN INDUSTRIAL POLICY WHICH TREATS EXCELLENCE AND COMPETITIVENESS AS PARAMOUNT.

THE FACTS DO NOT SUGGEST, TO ME AT LEAST, THAT ONTARIO CAN ACCEPT DRIFT IN NATIONAL INDUSTRY POLICY. IT MAY HAVE BEEN DESIGNED IN OUR FAVOUR A HUNDRED YEARS AGO, BUT IT DOES NOT GIVE ONTARIO A FREE RIDE TODAY.

IT IS TRUE THAT JOB CREATION OVER THE LAST YEAR HAS BEEN VERY HIGH, AND IN THE FIRST STAGES OF ECONOMIC RECOVERY THAT IS QUITE NORMAL. TO SUSTAIN THAT LEVEL OF GROWTH IS GOING TO BE DIFFICULT IN ALL REGIONS OF CANADA. BUT THAT IS WHAT WE HAVE TO ACHIEVE IF WE ARE TO MEET THE ECONOMIC TARGETS PROPOSED BY THE FEDERAL GOVERNMENT LAST FEBRUARY. INDUSTRIAL DEVELOPMENT IS A MATTER OF NATIONAL PRIORITY AND NOT SIMPLY ANOTHER PASSING ISSUE OF THE TIMES.



TAX POLICY AND ECONOMIC GROWTH

MR. PRIME MINISTER, WHILE I SUPPORT MUCH OF WHAT HAS HAPPENED SINCE FEBRUARY, AN INDUSTRIAL STRATEGY WHICH RELIES HEAVILY ON WIDESPREAD GIVEAWAYS, WILL ONLY COME BACK TO HAUNT US.

THE RECENT FEDERAL BUDGET MAY OR MAY NOT DO WHAT IT WAS INTENDED TO DO. HOWEVER, WE HAVE TO BE SURE THAT THE FEDERAL GOVERNMENT'S FISCAL AND FINANCIAL POLICIES ARE TIED TO A CLEAR SET OF ECONOMIC PRIORITIES. THE ENDS AND MEANS IN THIS PROCESS MUST BE CLEARLY UNDERSTOOD BY THE NATION.

TEN YEARS AGO, THE TAX STRUCTURE OF CANADA WAS REFORMED AFTER EXTENSIVE FEDERAL REVIEW. THAT REFORM FOCUSED ON INCOME-REDISTRIBUTION. THE PROGRAMS AND POLICIES OF THE FEDERAL GOVERNMENT FOR OVER A DECADE HAVE EMPHASIZED INCOME REDISTRIBUTION AND I THINK WE HAVE ALL SHARED THAT OBJECTIVE TO SOME DEGREE.



AT A LATER STAGE, FEDERAL POLICIES BEGAN TO FOCUS ON PUTTING MORE GROWTH INCENTIVES BACK INTO THE TAX SYSTEM. WE THEN SAW THE INTRODUCTION OF VARIOUS MEASURES DESIGNED TO ENCOURAGE INVESTMENT AND SAVINGS. AT THE SAME TIME, THE PERSONAL INCOME TAX SYSTEM WAS INDEXED TO OFFSET INFLATION, AND FEDERAL SPENDING WAS INDEXED WITH REGARD TO FAMILY AND PENSION BENEFITS. ON TOP OF THAT, RAPID WRITE-OFF PROVISIONS AND TAX SHELTERS FOR CERTAIN KINDS OF CORPORATE FINANCING WERE INTRODUCED TO ENCOURAGE BUSINESS SPENDING.

IN SUMMARY, OUR TAX SYSTEM -- AND I SAY 'OUR TAX SYSTEM' BECAUSE MANY PROVINCES ARE PLUGGED INTO THE FEDERAL STRUCTURE -- OUR TAX SYSTEM, MAY HAVE BECOME OVER-EXTENDED WITH AD HOC DECISIONS AND TEMPORARY DEVICES. WHAT BUSINESSMEN AND CONSUMERS INCREASINGLY WILL BE ASKING THEMSELVES IS: ARE THE FEDERAL TAX CUTS AND INCENTIVES SUSTAINABLE?

I SAID LAST FEBRUARY THAT EVEN AT FULL EMPLOYMENT LEVELS, GOVERNMENTS IN CANADA, WITH THE EXCEPTION OF THE OIL AND GAS PRODUCING PROVINCES, WOULD PROBABLY HAVE DIFFICULTY BALANCING THEIR BUDGETS. THAT RISK HAS INCREASED SINCE LAST FEBRUARY, AND ESPECIALLY SO SINCE THE MOST RECENT FEDERAL TAX CUTS.

SINCE THIS IS THE CASE, THEN I WONDER WHETHER WE ARE LOOKING AT A SITUATION WHERE IT WILL BE IMPOSSIBLE FOR THE FEDERAL GOVERNMENT NOT TO INCREASE TAXES VERY SHARPLY WITHIN THE NEXT TWO YEARS. THAT SEEMS TO BE A POSSIBILITY IF ONLY TO PAY FOR THE RISING BURDEN OF INTEREST ON THE PUBLIC DEBT AND TO BRING THE FEDERAL BUDGET INTO A NON-INFLATIONARY POSTURE.

I RECOGNIZE THAT SOME OF THE TAX ACTIONS IN THE RECENT FEDERAL BUDGET WILL HELP TO ALLEVIATE A NUMBER OF THE MORE SERIOUS PROBLEMS. BUT I MUST STRESS THAT THE PRUDENT MANAGEMENT OF OUR INDUSTRIAL, FISCAL AND FINANCIAL POLICIES REQUIRES US TO AVOID A CONTINUOUS ROUND OF RISING GOVERNMENT DEFICITS.

IN SHORT, MR. PRIME MINISTER, PRESENT ACTIONS IN SUPPORT OF THE ECONOMY SEEM TO BE LEADING TOWARD AN AMBITIOUS BUT UNSTABLE FISCAL FRAMEWORK. THE PRESENT FEDERAL SPENDING PROGRAMS AND TAX CUTS MIGHT BE STRETCHED FAR TOO THINLY OVER TOO MANY GOOD INTENTIONS, AND I CAN FORESEE A TIME, NOT TOO FAR OFF, WHEN THE CONSEQUENCES MIGHT HIT THE ECONOMY VERY HARD. BUSINESS AND CONSUMERS NEED CERTAINTY AND SECURITY IN PLANNING THEIR ECONOMIC FUTURE. THEREFORE, WE MUST FOCUS FUTURE EFFORTS ON TWO ISSUES:

FIRST, TAXING, SPENDING AND MONETARY POLICY INSTRUMENTS HAVE TO BE USED WITH GREATER PRECISION AND HARMONY. NOT ONLY MUST PUBLIC EXPENDITURE RESTRAINT CONTINUE, BUT TAX MEASURES MUST BE MUCH MORE EFFICIENT IN THEIR SUPPORT OF ECONOMIC POLICY.

SECOND, THERE MUST BE A CLEARER VISION OF OUR INDUSTRIAL PRIORITIES. TOP PRIORITY HAS TO BE GIVEN TO OUR WINNING INDUSTRIES AND TO THOSE SECTORS WHERE CANADA HAS A COMPETITIVE ADVANTAGE AND A PROMISING FUTURE. WE HAVE WASTED OUR RESOURCES DILUTING AND FRAGMENTING WHAT INDUSTRIAL STRENGTH WE HAVE. THOSE POLICIES MUST CHANGE.

#### ECONOMIC PRIORITIES FOR CANADA

I AM TABLING TODAY, A PAPER ENTITLED "ECONOMIC PRIORITIES FOR CANADA". IT OUTLINES RECOMMENDATIONS WHICH WILL HELP US REACH THE ECONOMIC TARGETS FIRST MINISTERS AGREED TO LAST FEBRUARY.

THE FEDERAL GOVERNMENT'S EMPLOYMENT AND GROWTH TARGETS ARE NOT AN ACADEMIC EXERCISE. WE CANNOT ANNOUNCE EACH YEAR THAT WE ARE BELOW TARGET AND LEAVE IT AT THAT. WE CANNOT AFFORD TO STAY OFF-TARGET FOR TOO LONG OR WE SHALL INDEED HAVE CREATED A PAPER EXERCISE AND THE PUBLIC WILL LOSE FAITH IN THE CAPACITY OF GOVERNMENTS TO MANAGE THE ECONOMY.



IN THE PAPER I AM TABLING TODAY WE OUTLINE FIVE MAJOR ECONOMIC PRIORITIES AND LIST SEVENTEEN RECOMMENDED ACTIONS FOR GOVERNMENT. THE FIVE PRIORITIES WE SEE ARE:

- . THE CONTROL OF INFLATION;
- . THE EXPANSION OF EXPORTS;
- . THE CREATION OF BETTER EMPLOYMENT OPPORTUNITIES;
- . THE STRENGTHENING OF CANADIAN BUSINESS TALENT; AND
- . THE REDUCTION OF BARRIERS TO TRADE WITHIN CANADA.

I WOULD LIKE TO MAKE SOME COMMENTS ON TWO OF THESE PRIORITIES: THE CONTROL OF INFLATION AND, THE EXPANSION OF EXPORTS.

#### CONTROLLING INFLATION

RECENT EXPERIENCE HAS TAUGHT US THAT IN A WORLD ECONOMY OUR INFLATION COSTS US JOBS. OVER THE PAST THREE YEARS, WE HAVE MADE GOOD PROGRESS IN BRINGING OUR DOMESTIC COST AND PRICE INCREASES INTO LINE WITH THOSE IN THE UNITED STATES. NONETHELESS, INFLATION REMAINS AT A LEVEL WHICH WE CANNOT FEEL COMPLACENT ABOUT.



IF WE ARE TO MEET OUR TARGETS FOR EMPLOYMENT GROWTH IN CANADA OVER THE MEDIUM TERM, CONTAINING DOMESTIC INFLATION WILL BE CRUCIAL. I BELIEVE THAT THE FEDERAL GOVERNMENT MUST SHOW LEADERSHIP IN DEALING WITH THIS ISSUE.

FIRST, I THINK WE SHOULD CONSIDER PUTTING IN PLACE SOME NATIONAL WAGE AND PRICE OBJECTIVES WHICH WOULD PROVIDE CANADIANS WITH A BETTER KNOWLEDGE OF WHAT THE ECONOMY CAN AFFORD.

SECOND, I WOULD SUGGEST THE FEDERAL GOVERNMENT EXAMINE THE INFLATION INDEXING AND INCOME-AVERAGING PROVISIONS OF OUR TAX STRUCTURE TO SEE IF THEY MIGHT BE USED MORE EFFECTIVELY TO COMPLEMENT OUR ANTI-INFLATION OBJECTIVES.

THIRD, I WOULD LIKE TO SEE THE ECONOMIC COUNCIL'S CENTRE FOR THE STUDY OF INFLATION AND PRODUCTIVITY ASSUME A HIGHER PUBLIC PROFILE IN ITS MONITORING AND EDUCATIONAL ROLES.

FINALLY, AS GOVERNMENTS, WE SHOULD RE-AFFIRM OUR INTENTION TO ENSURE THAT PUBLIC SECTOR SETTLEMENTS DO NOT ESTABLISH LEADING PATTERNS OR EXCEED REASONABLE NATIONAL OBJECTIVES.

## EXPORT EXPANSION

THE DECLINING CANADIAN DOLLAR HAS INCREASED THE LEVEL OF UNCERTAINTY IN THE CANADIAN BUSINESS CLIMATE. IT WAS ONCE CONSIDERED A HARD AND RELIABLE CURRENCY IN WORLD FINANCIAL MARKETS. I CAN UNDERSTAND WHY CANADIANS ARE UNEASY. THE CANADIAN DOLLAR HAS DECLINED MORE THAN MOST CURRENCIES AMONG THE LEADING INDUSTRIAL NATIONS.

I RECOGNIZE THAT THE NATION'S INDUSTRIES HAVE NOW ACQUIRED A POTENTIAL COMPETITIVE BOOST. BUT, AT THIS TIME, IT REMAINS ONLY A POTENTIAL OPPORTUNITY AND NOT A REALIZED GAIN. THE DECLINE IN THE PURCHASING POWER OF THE CANADIAN CONSUMER'S DOLLAR IN FOREIGN MARKETS DOES HELP TO DISPLACE IMPORTS AND CREATE JOBS IN CANADA.

THE NEGATIVE SIDE OF THAT PROCESS IS THAT CONSUMERS FACE INCREASES IN THE PRICE OF MANY GOODS AND SERVICES. THAT IS A PROBLEM WE SHALL HAVE TO COPE WITH FIRMLY BEFORE IT GENERATES ANOTHER SPIRAL OF INFLATION.

HOWEVER, ON THE POSITIVE SIDE, I THINK WE HAVE UNDERGONE THE WORST OF OUR ECONOMIC CRISIS IN COST COMPETITIVENESS. WHAT WE CLEARLY HAVE BEFORE US NOW IS A UNIQUE OPPORTUNITY TO USE EXPORTS AS A VEHICLE FOR SUSTAINED ECONOMIC AND INDUSTRIAL EXPANSION IN ALL PARTS OF CANADA.

IF WE ARE TO CORRECT OUR ECONOMIC PROBLEMS, THE EXPORT OF INDUSTRIAL AND AGRICULTURAL GOODS HAS TO BE OUR FIRST PRIORITY FOR THE NEXT FEW YEARS. NO OTHER POLICY WILL PRODUCE EQUIVALENT LONG-TERM BENEFITS FOR THE NATION AND NO OTHER SET OF ECONOMIC MANAGEMENT ACTIONS WILL BE AS EFFECTIVE IN DAMPENING INFLATION, CREATING NEW JOBS AND GENERATING RISING STANDARDS OF LIVING. IF FEDERAL POLICIES CAN NOW BRING STABILITY TO THE CANADIAN DOLLAR, INDUSTRY CAN TAKE MAXIMUM ADVANTAGE OF NEW EXPORT OPPORTUNITIES WITH INCREASED CONFIDENCE IN THE FUTURE.

I RECOGNIZE THAT IMPORT REPLACEMENT IS ALSO AN AREA OF GREAT OPPORTUNITY FOR CANADIAN BUSINESSMEN. THAT IS WHY THE SHOP-CANADIAN PROGRAM IS OF GREAT BENEFIT TO CANADIAN INDUSTRY. IN THE EXPORT FIELD HOWEVER, THERE ARE SPECIAL MARKETING RISKS FOR BUSINESSMEN. THEREFORE, THE POLICY EMPHASIS SHOULD BE ON THE EXPANSION OF CANADIAN BUSINESS INITIATIVES BEYOND OUR NATIONAL BOUNDARIES.



REGIONAL DEVELOPMENT POLICIES

ONTARIO HAS ALWAYS SUPPORTED FEDERAL ACTIVITIES TO PROMOTE INCOME GROWTH IN ALL REGIONS OF THE COUNTRY. I VIEW REGIONAL DEVELOPMENT POLICIES AS AN INTEGRAL PART OF A CONTINUING EFFORT TO MAINTAIN AND STRENGTHEN A TRULY NATIONAL ECONOMY. IN SOME YEARS, ONTARIO TAXPAYERS PAY INTO THE FEDERAL TREASURY OVER \$2 BILLION MORE THAN THEY GET BACK IN FEDERAL PROGRAMS AND TRANSFER PAYMENTS. AS LONG AS NATIONAL AND REGIONAL ECONOMIC DEVELOPMENT POLICIES ARE WORKING WELL, WE DO NOT OBJECT TO THAT.

OUR CONCERN IS THAT THE PRESENT PROGRAMS OF REGIONAL DEVELOPMENT TEND TO WEAKEN OUR ECONOMY WITHOUT NECESSARILY STRENGTHENING THE LOW INCOME REGIONS.

WE DO NOT HAVE THE PERCEPTION AT THIS TIME THAT REGIONAL DEVELOPMENT IS IN FACT WORKING AS WELL AS IT MIGHT. I WORRY ABOUT THE FUTURE OF CANADA WHEN I SEE DISPARITIES THAT HAVE DEVELOPED BECAUSE OF THE BUILD-UP OF ENORMOUS CASH SURPLUSES IN ONE REGION WHILE LOW INCOME REGIONS ARE SUFFERING UNACCEPTABLY HIGH RATES OF UNEMPLOYMENT AND HIGH LEVELS OF TAXATION.



FOR EXAMPLE, THE ALBERTA HERITAGE FUND EXERTS A CONSIDERABLE FISCAL AND ECONOMIC DRAG IN OTHER PARTS OF CANADA. THAT IS AN OBJECTIVE FACT NOT A VALUE JUDGMENT, AND I ADVANCE IT AS A PERSON WHO IS FULLY SYMPATHETIC WITH THE ECONOMIC ASPIRATIONS OF OUR WESTERN FRIENDS. THE MANNER AND DEGREE OF RECYCLING OF THOSE PETRODOLLAR FUNDS INTO THE NATIONAL ECONOMY INFLUENCES REGIONAL DEVELOPMENT, FISCAL POLICY ACROSS THE NATION AND OUR COLLECTIVE ABILITY TO CREATE AN EQUITABLE ECONOMIC BASE IN ALL PARTS OF THE CONFEDERATION.

MY VIEW IS, THAT EACH REGION SHOULD BE GIVEN A BASIC SUPPORTIVE ECONOMIC SHIELD BY THE FEDERAL GOVERNMENT. THE RICHER PROVINCES HAVE AN ECONOMIC OBLIGATION TO THE FEDERATION THAT CAN BE CALLED DOWN BY THE FEDERAL GOVERNMENT. THE LOWER-INCOME REGIONS, ON THE OTHER HAND, SHOULD BE GIVEN THE MAXIMUM ENCOURAGEMENT AND FLEXIBILITY TO BUILD ON THEIR STRENGTHS UNDER A FEDERAL UMBRELLA.

REGRETABLELY, TOO MANY FEDERAL POLICIES DISCOURAGE SELF-RELIANCE AND, IN EFFECT, CREATE A CONDITION OF DEPENDENCY. FOR EXAMPLE, THE FEDERAL GOVERNMENT HAS INSISTED ON COLLECTING A LARGE SHARE OF OFF-SHORE MINERAL RIGHTS AT A TIME WHEN THE ATLANTIC PROVINCES NEED A SOUND BUSINESS CLIMATE TO ENCOURAGE OIL AND GAS EXPLORATION. THE PRESENT FEDERAL POLICIES SEEM TO LEAN, I AM SURE UNINTENTIONALLY, IN THE DIRECTION OF COLONIZING THE LOW INCOME REGIONS OF THE COUNTRY. THAT IS NOT HEALTHY FOR CONFEDERATION.

I WOULD CAUTION THAT ONTARIANS DO NOT SHARE THE VIEW THAT THE WAY TO STRENGTHEN THE LOW-GROWTH REGIONS OF CANADA IS BY WEAKENING THE ONTARIO ECONOMY. NOR DO THEY BELIEVE THAT IT CAN BE DONE BY ARTIFICIALLY DIVERTING INDUSTRIES TO REGIONS WHERE THEY WOULD NOT OTHERWISE LOCATE. WE DO NOT POSSESS AN INFINITELY DEEP POOL OF WEALTH FOR REDISTRIBUTION. TO TRADE OFF COMPETITIVE INDUSTRIAL DEVELOPMENT SO AS TO ACHIEVE A BETTER REGIONAL DISTRIBUTION OF INCOMES IS A TERRIBLY EXPENSIVE STRATEGY WHICH WE CAN NO LONGER AFFORD.

ONTARIO'S POSITION ON THESE MATTERS IS, THAT INEFFICIENCIES IN THE DELIVERY OF EFFECTIVE REGIONAL DEVELOPMENT IMPOSE A COST ON ALL CANADIANS. ONE OF THE FIRST REQUIREMENTS OF A FEDERATED SYSTEM OF GOVERNMENT IS THAT ITS REGIONAL DEVELOPMENT PROGRAMS BE EFFECTIVE. IT IS ALSO THE OTHER SIDE OF THE DESIRE TO ACHIEVE EQUITY: THE RESPONSIBILITY TO SEE THAT THE TAXPAYER'S MONEY IS PROPERLY AND EFFECTIVELY SPENT AND NOT WASTED.

### CONCLUSION

AS WE BEGIN THIS CONFERENCE, I WANT TO ASSURE YOU THAT THE ONTARIO GOVERNMENT WELCOMES THE INITIATIVES EMERGING FROM THE NEW AND POSITIVE MOOD OF INTER-GOVERNMENTAL RELATIONS IN RECENT MONTHS. WE DO NOT ALWAYS AGREE ON THE REMEDIES BUT I THINK OUR FEDERATION IS STRONGER FOR ITS ABILITY TO AIR DIFFERENCES OF VIEWPOINT AND TO EXPLORE ALTERNATIVE COURSES OF ACTION.

OUR CONCERN IN ONTARIO IS THAT GOVERNMENTS RESTRAIN THEIR DEMANDS ON THE ECONOMY. IN THAT WAY WE CAN MAINTAIN A CAPACITY TO DEAL CONTINUOUSLY WITH MORE THAN ONE ECONOMIC PROBLEM AT A TIME. WE SHOULD NOT HASTILY ADOPT ECONOMIC OBJECTIVES AND PROGRAMS THAT WILL BE ABANDONED JUST AS HASTILY WHEN OTHER PROBLEMS EMERGE. THE FUNDAMENTAL OBJECTIVES WILL NEVER DISAPPEAR. THEY CENTRE ON TWO ISSUES: THE CAPACITY OF THE CANADIAN ECONOMY TO STAY ALIVE AND WELL, AND, THE ABILITY OF GOVERNMENTS TO MANAGE THAT PROCESS WELL SO AS TO ACHIEVE THE IMPORTANT GOAL OF BRINGING BETTER EMPLOYMENT OPPORTUNITIES ACROSS CANADA.





INTRODUCTORY STATEMENT

BY THE

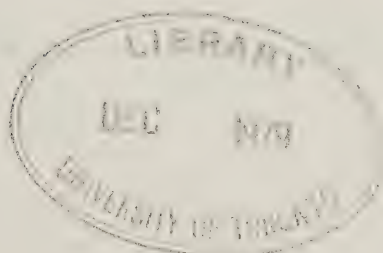
HONOURABLE W. BENNETT CAMPBELL

PREMIER, PRINCE EDWARD ISLAND

TO THE

FIRST MINISTERS CONFERENCE ON THE ECONOMY

OTTAWA, NOVEMBER 27-29, 1978





Mr. Chairman:

When endeavouring to establish long-range economic goals, I believe most of us as leaders of governments are torn between an attempt to reduce taxes and government expenditures on the one hand and the need to continue reducing disparities and economic injustice on the other. I believe this conflict forces us to establish clearly in our minds certain basic commitments and to ensure that these are translated into tangible economic goals; otherwise, governments could contribute to undoing much of the progress that has been achieved over the past few years.

In this statement dealing with a review of the economy I intend to focus my remarks upon:

1. the process of establishing national economic goals or targets and
2. the need to harmonize provincial planning and national planning.

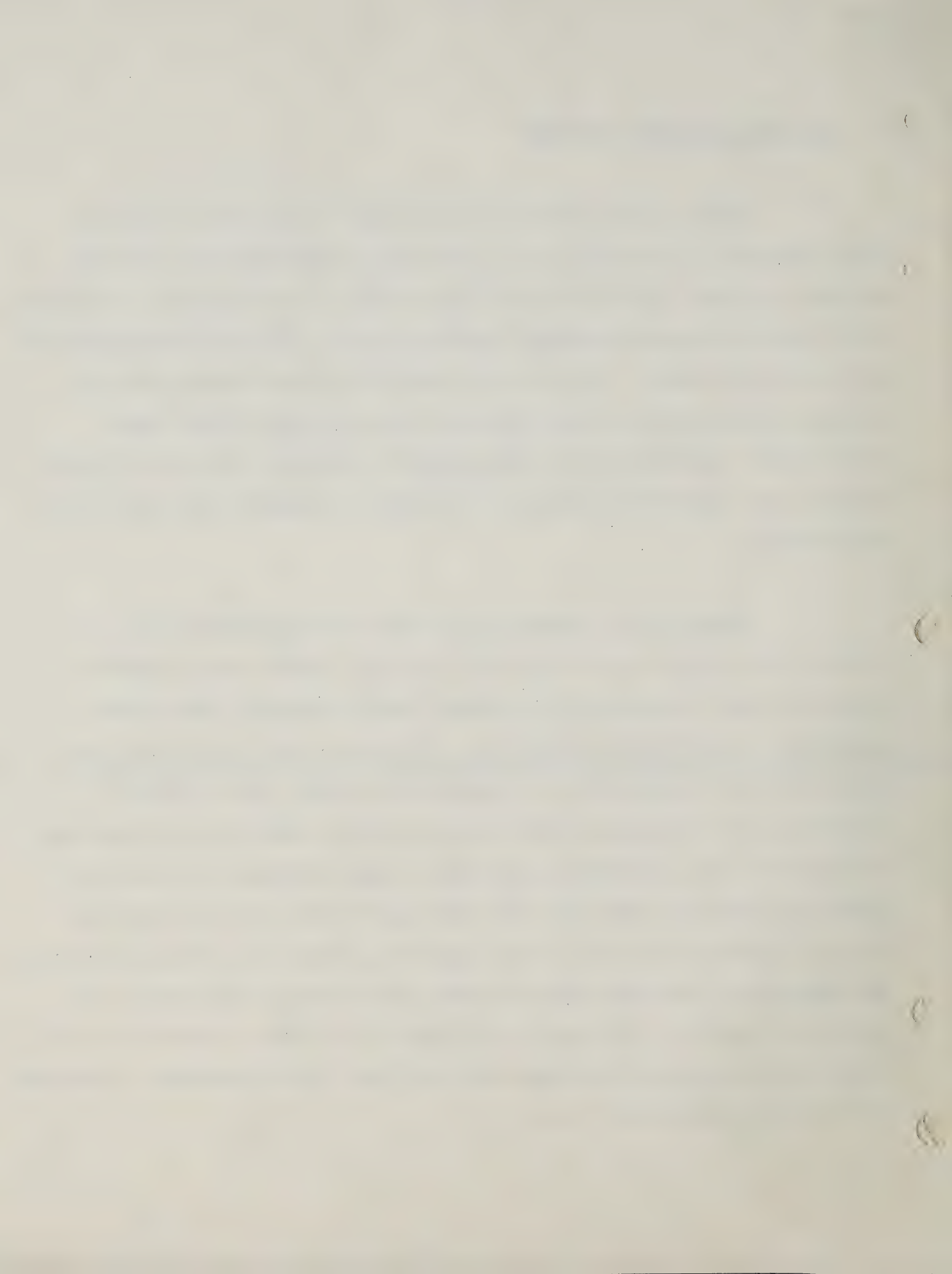




## 1. NATIONAL ECONOMIC TARGETS

While it may seem to be true that the whole is greater than the sum of the parts, it is our view, nevertheless, that the national economy is comprised of many small, interdependent economies which have different potential opportunities, different deficiencies and different needs. We are convinced that Canada needs national economic policies but these policies must fit well with those established regionally and vice versa and together they should lead toward some reasonable balance of growth and opportunity throughout the country.

Therefore it seems to us that a substantial effort to examine and predict the impact of national targets upon regional economies must accompany or, indeed, be an integral part of the national target-setting exercise. If this is not so, we may find that national targets will be excessively based upon national averages and this could result in our nation adopting policies that tolerate or even reinforce extremes in some regions. We have all heard the story of the man with his head in the oven and his feet in the refrigerator who, on the average, should be pretty comfortable. So dealing in averages can oft-times be misleading and could, for example, result in tolerating extremely low rates of growth or high rates of unemployment in some areas of the country because on average we're doing reasonably well.



Equally important is the possibility that national targets could actually negate targets established by regional economic plans, unless, of course, national goals are an aggregate of regional ones or unless provinces have enough information to take national goals into account in their economic strategies.

I do believe that the process of national target setting would be furthered if the federal government would publish with its national targets the forecasted regional outcomes that will result from these national targets before we all subscribe to them.

## 2. REGIONAL DEVELOPMENT

Mr. Chairman, I strongly believe this country will always face a crisis respecting unity so long as widespread disparity exists: so long as most of the wealth generating capacity is located in particular sections of the country and the rest of us are perceived as living on handouts, and, so long as a large number of Canadians suffer from inadequate opportunities, not because they are poorly educated or inept, but because they have their roots in a particular region of this country.

This is not to say that joint government action has not been effective in reducing such disparity. Indeed, the efforts of the federal and provincial governments have, I believe, been impressive. With the assistance of DREE programs we, in Prince Edward Island, have built industrial parks, fishing ports, roads and houses.





More Islanders are remaining in their native province, more people are employed, and we are producing a greater number of goods and services than ever before. We are heartened by national forecasts\* indicating that in 1978 growth in Prince Edward Island will be second only to that of Alberta. While our unemployment rate is still high, well over 9 percent, we are pleased that it is lower than in times past and is much lower than many other areas in the country. And, this is in spite of steady increases in both our labour force and participation rates. The service sector is, by far, the largest component in terms of output, employment, and employment growth, and construction continues to represent an inordinately large proportion of the goods producing sectors, but the outlook for agriculture and fishing is improving.

Progress is most definitely being made. It is measurable from statistics and it is visible to residents and visitors alike. We plan to continue the developments which have produced these results.

It is important to emphasize that such progress, which is not confined to Prince Edward Island, can come to an abrupt halt if governments in Canada adopt a position that their primary course of action should be to get out of the way and let the private sector do the job. Experience has taught us the private sector has to be encouraged by government to get involved in the development of our

\* Conference Board Quarterly Provincial Report, October 1978



region. If governments step aside, the job won't get done. We regret this. And we hope it will change. But, it is painfully obvious that, apart from a few companies, such as Northern Telecom which has been sensitive to regional economics in Canada, the private sector seems to feel little sense of a responsibility toward contributing to balanced economic growth in this country.

I am not suggesting that private companies assume unrealistic risks or extra costs that would destroy their competitive advantage. But if a firm is planning to expand anyway, surely the officials of the company could investigate possibilities of locating some operations in various regions of the country. If they do they may be pleasantly surprised. But, until now we have had little success in attracting national businesses. Most of the enterprises that have contributed to the diversification of our economy have come from Europe.

While increased participation by the private sector is necessary to create balanced growth, government involvement must be carefully planned as well.

An important principle should be: governments must not reduce the funds available for economic opportunities as a means of providing funds for welfare type programs. I want to emphasize there are two ways we can go about raising the incomes of the poor: they can be given money or they can be given opportunities to support





themselves. I am afraid that as Canada reduces its expenditures it will place too much emphasis upon continuing and even expanding the redistribution of income to individuals at the expense of cutting back on money spent to give people opportunities to work.

We think similarly about job creation efforts. Often these programs result in people doing tasks which have little significance in creating wealth or contributing to the building of our economy.

In fact, temporary programs often raise expectations that particular services will continue with the result that after the federal funding ceases the provincial government is left with the problem of continuing these services or deal with the complaints of citizens after the programs are terminated. Therefore, if make-work projects are necessary, they should fit as pieces of a provincial economic strategy that will result in a permanent contribution to the provincial and national economy. Although progress has been made in improving consultation between federal and provincial governments, I think we must continue to stress this need especially when planned national activities will have an impact upon regional economic development.

Mr. Chairman, governments must not apologize involving themselves in national economic affairs. They must set goals and achieve them and this process must be a coordinated one if it is to result in balanced growth throughout the country.



OPENING STATEMENT  
ON  
THE FISHERIES SECTOR  
TO THE  
FIRST MINISTERS ECONOMIC CONFERENCE



OTTAWA

NOVEMBER 28, 1978





Mr. Chairman:

Without doubt, the fishery is one of Canada's most promising industries. It is making an important contribution to our national economy and to a greater extent it is being relied upon by coastal provinces to provide a firm basis for their economies.

Last year fish exports earned Canada over 800 million dollars. This is more than double the value for fish exports five years ago and substantial increases are expected in the years to come. Such results are having an extremely positive impact upon our regional economies.

I was personally impressed by a statement made recently by the Honourable Walter Carter to a meeting of Fisheries Ministers wherein he compared the significance of the fishery in our region to the importance of energy in the west. "It is," he said, "the basis upon which most of our future lies."



While this may be especially true in Newfoundland, the fishery, which presently employs over ten percent of Prince Edward Island's provincial work force, figures prominently in our province's future economic development as it does in the other Atlantic provinces.

Obviously, the subject is too vast for me to effectively summarize all of the issues associated with governments' involvement in the continuing economic development of this resource. Since I must choose an emphasis, I will focus my remarks upon the roles that respective governments are playing in developing and managing the fishery. I hope such a lead-off statement will accurately describe the main problems that require resolution and will contribute to productive discussions during and after this conference.

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According to our present frame work, these are what I perceive to be primarily federal responsibilities:

1. Determining requirements for research and undertaking research in order to provide management authorities and the fishing community with necessary information including the numbers and movements of various species of fish as well as their potential to reproduce and be harvested;
2. Managing and ensuring the conservation and protection of salt water and anadromous species by establishing total allowable catch limits, allocating quotas and establishing agreements with foreign nations;
3. Building and maintaining ports and harbours;
4. Establishing and maintaining quality and grading standards which relate to the needs of the marketplace;



5. Promoting increased Canadian participation in international fish markets;

6. Participating in the renewal and modernization of the fishing fleet.

This brief list, I believe, represents the basic responsibilities that most provinces expect the federal government to perform. I intend to elaborate further upon the relationships between the levels of government regarding these necessary functions but first I should like to specify what I understand to be provincial responsibilities.

1. Furthering economic development of individual fishermen and fishing communities by assisting fishermen to obtain vessels and gear and by improving facilities on shore which fall under provincial jurisdiction;
2. Assisting fishermen to develop and improve marketing methods;





3. Assisting with the development and modernization of systems to handle and process fish;
4. Providing extension programs and other training for fishermen.

Although each of these is regarded as primarily a provincial responsibility, this does not preclude the involvement of federal funds through cost-shared programs which are designed to enable less wealthy provinces to increase the productive capacity of their economies and such federal involvement does not relieve provinces of these responsibilities.

While we may agree that the foregoing constitutes a basic description of respective federal and provincial roles, this is not to say there is no disagreement over how each discharges its responsibilities. Some provinces are convinced that changes are necessary to allow more provincial sharing in these responsibilities in order to facilitate a more orderly development of economic opportunities and of local economics. I feel it would be helpful to our



discussions if I summarize some of the provincial views which have been expressed regarding the federal functions which I previously identified.

Most provinces agree that the federal government is best equipped to take the lead in research. Certainly, the smaller provinces would be financially strained if they attempted to undertake this responsibility. Moreover, it is likely that duplication and overlap could result if many provinces entered this field. Nevertheless, some provinces feel strongly that there should be provisions for provincial input into decisions concerning research. Indeed, one province has argued in favour of increasing opportunities for the private sector to participate in research activities. There is a great deal more that could be said about research, but I believe most provinces do not regard it as great an issue as management of the resource.

Every coastal province we contacted indicated a strong interest in increasing its province's participation in management of the resource. I doubt that another single issue is regarded as being more important.





But, I think it is fair to say that the provinces do not entirely agree among themselves regarding the extent they can or should be involved. Some provinces have already recorded strong objections to any action that would recognize the principle of Provincial Maritime Territoriality. They maintain that migratory fish do not belong to a particular province merely because they congregate near its shores at certain times of the year.

Other provinces, while not disagreeing with this position, insist, nevertheless, that certain stocks, although migratory, dwell primarily adjacent to their shores. They object to licenses being issued to large vessels based in other provinces which take a high proportion of the allowable catch of these stocks and return them to their native province for processing. The prospect of this happening creates particular apprehension if, in the provinces closest to these stocks, processing plants are idle or underused and if there is widespread unemployment.



Consequently, some provinces feel that it is only just and fair that they participate in making the decisions that affect fish stocks upon which their rural communities depend and which have a major role to play in their future over-all economic development.

Competition is not restricted to different provinces. In Canada there are several examples of fishermen from the same province vying for the right to fish common stocks. To a certain extent this is true on the west coast where fishermen from the north coast compete with those from the south. This situation can also be found in the Atlantic. And so it is that even those provinces which do not face competition with others, believe that they would benefit from increased involvement in the control of existing fisheries and in the development of new fisheries.

While some provinces favour, to a greater extent than others, freer access to all stocks, I believe





that all provinces agree that provision should be made to ensure that the in-shore fishermen, who are less mobile, have adequate opportunities to make a living. Opinions differ somewhat with respect to the principles that would govern access to various stocks as well as the means of allocating them. Some provinces favour provincial quotas; others do not. And while some provinces advocate changing constitutional jurisdiction so as to increase provincial authority, there is a considerable body of opinion which maintains that the main issues are economic and must be solved from an economic perspective. Those who hold this latter view feel that changing the BNA Act would achieve little in resolving the problems at hand whereas significant changes in management practices could be achieved under existing jurisdictional authority.

Regardless of who is right on this question, or what means are proposed to resolve it, it is fair to say that, while some provinces tend to look toward the federal government to arbitrate differences,



all provinces feel they would benefit from greater involvement in management issues, especially in the setting of quotas, the issuing of licenses, and the control over non-migratory species such as shell fish and seaplants.

Furthermore, all agree that such involvement should be more than advisory; rather, provision should be made for provinces to actually participate in the making of decisions.

As regards the third function, the building and maintaining of ports and harbours, I sense that there is a feeling among some provinces favouring greater consultations.

On the other hand no particular problems seem to be evident with regard to the establishment of national standards for quality and grading, nor the federal role of working with the private sector and other provinces in promoting international markets.

I believe the Ross Report on marketing is stimulating considerable discussion in some areas. But, in a relative sense I do not believe this issue is considered to be of equal significance with resource management.





The renewal of the fishing fleet is a controversial issue, but because it is so closely linked with licensing some feel it cannot be settled independently. Most provincial representatives emphasize that the replacement of relatively obsolete vessels is vital if our processing plants are to be supplied with an optimum amount of fish.

I do not believe provinces are experiencing difficulties with performing the functions which I have described in this report as being chiefly their responsibilities. But there is some frustration because federal and provincial civil servants are beginning to compete as both attempt to perform extension functions. Provinces believe this to be their responsibility. It is a common perception in the provinces that they can do a better job in these areas because their administrations, by virtue of their location and size, are closer and more attuned to the communities.



Mr. Chairman, I recognize that this brief summary could not do justice to all the issues. In fact, it has not even considered all of the fisheries in Canada. I am aware that there are thousands of fresh water fishermen in Canada who live between our coasts; but, I do not think that in such a short time I could have done justice to their cause. I leave it to their own provincial representatives to decide whether there are issues relating to this fishery which should be considered at the federal-provincial conference.

What I have attempted to do is to describe, as I see them, the issues which are significant to economic development, particularly along the Atlantic coast. I am not attempting to speak for others, nor have other provinces endorsed these remarks. I leave each province to speak for itself.

I make these remarks with the hope that this summary of problems may free this conference from

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devoting all of the time allocated to the fisheries sector in describing the problems. Instead, I hope this statement will make it possible for us to search for solutions. A positive outcome of this conference, would be agreement upon a series of steps leading to a solution of the problems associated with the management issue, specifically quotas and licenses. I am confident that such an outcome is possible and that workable solutions are, indeed, within our grasp.



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Conference of First Ministers  
on the Economy  
Ottawa, Ontario  
November 27-29, 1978

# ECONOMIC PRIORITIES FOR CANADA



The Honourable  
William G. Davis  
Premier of Ontario





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Faculty of Management Studies  
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ECONOMIC PRIORITIES  
FOR CANADA

Conference of First Ministers  
on the Economy  
November 27-29, 1978

Premier of Ontario



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## RECOMMENDATIONS

- Recommendation: National income and price objectives, consistent with our medium term goals for reducing unemployment, should be established.
- Recommendation: The indexing and income averaging provisions in Canada's tax system should be reviewed in terms of their potential for contributing to Canada's anti-inflation objective.
- Recommendation: The Centre for the Study of Inflation and Productivity should be encouraged to maintain an active role reviewing and commenting on major pace-setting price increases and wage settlements in Canada.
- Recommendation: All governments and their agencies in Canada should recognize the vulnerability of wage negotiations to settlements in the public sector, and take steps to ensure that public sector settlements do not establish unwarranted norms.
- Recommendation: Safeguards on Canadian shares of technology development, investment, employment, value-added and sourcing of supply for Canadian subsidiaries of multinationals should be given due emphasis.
- Recommendation: A concerted effort must be made to encourage Canadian enterprise to participate in trade opportunities arising from the growth programs of developing countries. Appropriate export vehicles and services designed for small and medium size Canadian corporations should be an integral part of this initiative.
- Recommendation: Policies should be designed to reduce Canada's huge balance of payments deficit in the import of the services of managerial, technical and marketing know-how by utilizing the talents of Canadian graduates.
- Recommendation: A major program should be developed to redirect a substantial portion of present federal Unemployment Insurance funding to subsidize job creation and finance effective on-the-job training programs.
- Recommendation: Consideration should be given to amending Canada's capital gains tax to ensure that it is not discouraging the domestic flow of private equity investment.
- Recommendation: Ways and means should be found to increase the flow of equity investment from Canadian financial institutions.
- Recommendation: Energy sector developments should be economic, and initiated in a manner that will maximize the long term benefits to Canada without impairing the prospects for growth in other sectors.

- Recommendation: Constitutional revisions should provide, as a major objective, a strong Canadian common market in which the free and undistorted flow of individuals, goods, capital and services is assured.
- Recommendation: Constitutional revisions should provide a clarification of federal and provincial roles in economic policy so as to strengthen federal responsibilities for economic and fiscal matters of national impact and provincial responsibilities for local activities.
- Recommendation: New efforts are required to harness federal and provincial government purchasing policies to achieve national development goals.
- Recommendation: Regional development policies should be designed to accent resource, geographic and manpower advantages.
- Recommendation: A meeting of First Ministers on the economy should be held at least once a year.
- Recommendation: Ministers of Finance should be given the task of maintaining the overall economic co-ordination, planning and broad target setting exercise for consideration by First Ministers. Other federal and provincial ministers should be given the responsibility to bring forward issues requiring the attention of First Ministers.

## ECONOMIC POLICY PROCESS

A central feature of the debate on economic issues over the past year in Canada has been its growing coherence and openness. The process of making economic policy is often overlooked in the advocacy of particular directions in economic management. Nonetheless, an open and public process for identifying the issues and reaching a consensus is essential to successful policy, particularly in a federal state.

Canadian federalism exists as a response to cultural diversity and regional differences in objectives, expectations and economic structure. At a minimum, the smooth functioning of federalism requires communication and consultation among governments and between governments and the public. Now, at a time of economic uncertainty, it is essential that there be co-operation, and co-ordination as well.

### FIRST MINISTERS: THE ECONOMY

The February Conference of First Ministers on the economy represented an important breakthrough in economic policy formation in Canada for a number of reasons:

- Economic initiatives were openly and publicly discussed and debated by the First Ministers of the eleven senior governments in Canada;
- The broad outlines of a far-reaching and coherent economic strategy were hammered out. That strategy is aimed at restoring private enterprise as the engine of economic growth in Canada;
- First Ministers set forth ambitious targets and rules that will provide strict discipline on the exercise of public policy in Canada; and
- The private sector, through the sector task force exercise, was invited to participate in the discussion and recommendation of economic policy.

At the February Conference, Ontario accented two broad policy thrusts that ultimately shaped the final communique and the subsequent follow-up initiatives. These were:

- . That all governments attempt to contain the growth of the public sector in Canada in both expenditure terms and in regulatory activities in an effort to "free-up" resources and initiative to the private sector; and
- . That a positive enterprise strategy be designed to provide incentives and freedom to the consumer, to business and to workers to stimulate the rate of spending, investment, employment and productivity growth in the Canadian economy.

These principles form the basis upon which economic policy in Canada should be founded in both the short and the medium term.



## ECONOMIC PERFORMANCE

Last February, Ontario released An Economic Development Policy for Canada. That document set out and contrasted Canada's recent performance in incomes, jobs, investment, prices, productivity and trade with the published federal targets for the medium term. Ontario was prepared to endorse the federal targets as appropriate goals for guiding First Ministers in developing a framework for national economic policy initiatives. There were, however, large gaps between past performance and future targets.

MEDIUM TERM GROWTH TARGETS		Table 1
	Annual Average Per cent	
	Actual 1973-77	Target 1978-81
GNP	3.9	5.5
Jobs	3.1	2.8
Investment	5.7	7.3
Prices	9.0	3.5 *
Productivity	0.8	2.6
Exports	3.7	6.4
Imports	6.3	5.5

Source: Statistics Canada and Finance Canada.

Note: GNP, Investment, Exports and Import growth are all expressed in real terms.

\* Inflation target for 1981.

Ontario's view was that a successful attempt to meet the targets would require significant policy changes. Accordingly, Ontario mapped out a strategy designed to:

- ensure longer term price stability;
- encourage investment and improve the business climate;
- promote market expansion and competitiveness for Canadian goods at home and abroad; and
- deliver growth to all regions of Canada.

The federal targets recognized the crucial role of investment and job growth in the manufacturing sector. Manufacturing and energy investment are identified as the principal sources of growth over the medium term. Similarly, a central focus of the Ontario strategy was on manufacturing.

Ontario's special concern for manufacturing relates to the fact that 50 per cent of Canadian manufacturing jobs and output are in Ontario. The performance of Ontario's economy and the well-being of its citizens depends crucially on the capacity of the Ontario economy to generate job opportunities in this sector. But it must also be recognized that a healthy environment for manufacturing provides opportunities and benefits for all regions of Canada.

Since February, there has been some indication of Canada's economic performance in light of the actions of First Ministers. There has also been a further opportunity to evaluate the short term strengths and weaknesses of the economy and the implications for achieving the medium term targets. New policy initiatives developed from the February communique and follow-up. Many of these initiatives will not yet be reflected in Canada's economic performance. However, consumers and businessmen have become more aware of and involved in the development of economic policies, and a greater sense of certainty and confidence about the future has been achieved.

Job growth this year has been encouraging. An estimated 320 thousand jobs will be created this year in Canada, with about 126 thousand of those jobs in Ontario. Canadian incomes have grown somewhat faster than last year. This job creation and income growth reflects a marked improvement in international competitiveness and the dramatic impact that this can have on short-term

performance. Moreover, over 90 per cent of the jobs created in Ontario in the past year have been in the private sector; a tribute to the restraint efforts that have taken Ontario's budgetary expenditure growth down from a peak of 20.8 per cent in 1974-75 to 6.9 per cent this fiscal year.

The federal restraint and reallocation exercise announced this summer should multiply the gains already made. Federal spending plans for next year suggest that they will now be in line with the target of containing government expenditure growth to less than GNP growth as agreed to by First Ministers last February. In doing so, however, the provinces are being asked to carry a substantial portion of federal restraint, as payments to the provinces will be cut by several hundred million dollars.

Ontario's initiative in securing a joint federal-provincial funding of the provincial retail sales tax cut has resulted in stronger domestic sales and production, as well as lower consumer prices through this year. The recent federal move to lower the federal manufacturer's sales tax by 3 points should help to sustain this beneficial effect. Nonetheless, despite the improved performance this year, there are a number of uncertainties on the horizon for next year and beyond.

This year's overall economic performance was short of the targets for income, productivity and price performance put forward by the federal government in February. For 1979, high inflation, erosion of domestic consumer demand and the possibility of a much slower growth in the U.S. economy, may mean that Canada could fall even further behind the targets. In October, nearly 800 thousand Canadians were looking for work, almost one-third of these in Ontario. Despite the rapid rate of job creation achieved, these figures point to

the difficulties faced in absorbing into the workplace a dramatic increase in our labour force, and particularly young people looking for their first job. They also underline Ontario's special concern with policies to deal with industrial expansion.

Despite these difficulties, however, the economy is in a position to move onto its target growth path. This is evident in the encouraging increase in production, next year's investment plans by large Canadian corporations and Canada's improved cost and price competitiveness. Nonetheless, our success in achieving these goals depends crucially on the maintenance of an overall policy focus on economic management and the restoration of a climate of confidence.

For the medium term, therefore, Ontario is of the view that economic initiatives should build on the progress made by First Ministers last February in putting forward a series of consistent and comprehensive policies. Priority should now be given to actions which will:

- . ensure continued progress toward reducing the underlying rate of inflation in Canada;
- . improve marketing capabilities and initiatives to gain access to foreign markets and, in particular, new markets in the rapidly growing Third World countries;
- . provide incentives to speed the integration of a rapidly growing and highly educated work force into productive employment;
- . maximize the flow of domestic savings into equity support of Canadian entrepreneurs; and
- . encourage the development of a truly national economy within Canada.



## CANADA'S MEDIUM TERM PRIORITIES

### INFLATION

In a country as open to international trade and investment flows as Canada, price stability is not a separate objective from full employment. Canada's inflation experience of the early seventies, culminating in a substantial increase in unemployment and depreciation of the value of the Canadian dollar, bears witness to the importance of maintaining an appropriate anti-inflationary environment. Attainment of the medium term growth and employment targets will be critically dependent on achieving the wage and price objectives.

Restraining nominal income increases to levels comparable with those of Canada's major trading partners is the other side of the cost equation for ensuring international competitiveness. Price increases emanating from dollar depreciation, crop failures and energy shortages imply that society is less well off in real terms. Moreover, Canada's overall productivity performance remains sluggish. Paying higher money incomes in futile attempts to offset these higher costs, without real improvements in our productivity performance, can only lead to further inflation, further dollar deterioration and a further decline in real incomes.

Recent experience in Canada, the United States and other industrialized countries indicates that the nature of the underlying causes of inflation has been changing. Large relative price shocks in food, energy and imports coupled with institutionalized price and wage setting rules (cost-plus pricing and indexing, for example) designed to pass on cost of production or cost of living increases result in successive rounds of generalized price increase. Even monetary restraint may not be effective in slowing this process dramatically. Slack market conditions

often do not impact on either the institutionalized rules for wage and price setting or the underlying supply shortages that may have first triggered the process (e.g. crop failures). Moreover, unemployment that results from large numbers of new entrants, in contrast to increased lay-offs, does not have the same restraining effect on wage demands of employed workers. In short, slack markets and monetary restraint alone are not assurance against further inflation.

Our major competitor, the United States, has recognized these issues, and, in addition to pursuing monetary and spending restraint, has embarked on an ambitious and novel program to influence wage and price behaviour in both the public and private sectors. Canada's medium term employment and price targets will be in serious jeopardy if the United States achieves relative success in this program.

Thus, Ontario remains concerned about the performance of wages and prices and our ability to meet the medium term targets.

**Recommendation:**      **National income and price objectives, consistent with our medium term goals for reducing unemployment, should be established.**

Restraining nominal income gains below increases in consumer prices, when these prices have been rising because of factors originating outside Canada, is essential to our economic well being. It should be recognized, however, that Canada's tax system provides some relief to Canadians whose incomes do not rise as fast as inflation. This benefit flows from the inflation indexing of the tax system and should not be overlooked in making income demands.

ANTI-INFLATION TAX INDEXING EFFECT\*

Table 2

	Gross Income		Percentage Average 1979/1978
	1978	1979	
	\$		%
<u>Case 1:</u>			
. Before tax	14,000	14,840	6.0
. After tax	11,883	12,659	6.5
<u>Case 2:</u>			
. Before tax	14,000	15,680	12.0
. After Tax	11,883	13,245	11.5

\* Married taxpayer, one income earner and two children under age 16; gross income excludes family allowances. An inflation indexing factor of 9.0 per cent applies for 1979.

Note: For purposes of focusing the illustration on indexing, only those personal exemptions subject to indexing are considered in computing taxable income. The impact of the federal tax reduction, child tax credits and the Ontario tax credit system is ignored.

Source: Ontario Ministry of Treasury and Economics.

The table above shows how an average taxpayer whose gross income rises next year by six per cent will, because of indexing, find his after-tax income rising by 6.5 per cent. Conversely, the tax system imposes some penalty on individuals whose income growth exceeds the indexing factor. Overall, the benefits of indexation in protecting the taxpayer against inflation in the tax structure are substantial -- some \$1.6 billion will be returned to taxpayers from federal and provincial governments in 1979. It is possible, moreover, that the distribution of inflation compensating benefits could be skewed more dramatically to benefit those whose incomes do not rise as fast as inflation.

**Recommendation:** The indexing and income averaging provisions in Canada's tax system should be reviewed in terms of their potential for contributing to Canada's anti-inflation objective.

Critical to achieving post control anti-inflation objectives will be the ability to maintain public confidence that those groups with significant economic power will not touch off further attempts to "catch-up", "protect" or "augment" their incomes at the expense of others. Accordingly, there is concern that Canada's new inflation monitoring agency, the Centre for the Study of Inflation and Productivity, has not adopted a high public profile. That agency, in its educative function, must publicize not only those settlements or price increases which are excessive but also point to those settlements showing commendable restraint.

**Recommendation:** The Centre for the Study of Inflation and Productivity should be encouraged to maintain an active role reviewing and commenting on major pace-setting price increases and wage settlements in Canada.

Wage settlements involving a prominent group of government employees often set the standard for settlement in other sectors. The importance of the demonstration effect of wage settlements in the public sector was recognized by First Ministers at the February Conference. It was concluded that it was vital, as the Canadian economy moved out of controls, that wage increases for public employees not lead those in the private sector.

In this regard, the recent federal government settlement with the outside postal workers seriously jeopardizes the commitment to wage and price restraint. Indeed, the Economic Council's monitoring agency notes of this settlement that:

If the private sector and the rest of the public sector were to follow the pattern of this settlement, with rates of increase a couple of points above the CPI, and an acceleration of rates of increase in the latter stages of a contract, it would in our judgement be extremely difficult to bring down the rate of inflation in this country.

**Recommendation:** All governments and their agencies in Canada should recognize the vulnerability of wage negotiations to settlements in the public sector, and take steps to ensure that public sector settlements do not establish unwarranted norms.



## EXPORTS

The federal targets put a heavy emphasis on a strong export performance in the medium term. Declining population growth in Canada implies that domestic demand will not be growing as strongly as in the past. Consequently, much more attention is directed at the external trade sector as a potential source of economic growth. But just as the demographics indicate modest growth in Canada, so too is it the situation in other industrialized countries. The competition for markets and for investment can be expected to intensify. Indeed, it is already doing so; at the same time that the world is moving closer to general tariff reductions in the current GATT negotiations, there has been an increase in non-tariff barriers by most countries to protect domestic markets.

Nonetheless, should Canada's traditional trading partners in the industrial world embark on a steady expansionary course they would provide considerable stimulus to the export sector. Additionally, the task of attaining the strong growth targets might be facilitated by the restored competitiveness brought about by a depreciated dollar and slower rising domestic costs.

It would be risky, however, to assume the most favourable set of circumstances. In fact, the potential for intense competition combined with a less than robust industrial expansion abroad, suggest that top priority should be given to a strategy for maximizing the chances of success. Analysis of Canada's trade structure and shifts in the international economy indicate that the essential ingredients of any strategy for the medium term and beyond are:

- an emphasis on marketing approaches and intergovernmental negotiation to penetrate non-price barriers in industrial markets; and
- cultivation of new markets for manufactured goods, tourism and technical services in rapidly-growing developing economies.

In February, the Ontario government made the following recommendations:

- . The federal Enterprise Development Program (EDP) should focus its grants on international marketing initiatives such as test marketing and start-up costs for sales outside Canada.
- . The EDP should also develop specialized marketing services to assist Canadian manufacturers to break through complex government procurement regulations and to deal with less developed and state trading countries; and
- . Trade sensitive industries should not be restricted from mergers by either the Competition Act or FIRA.

While some useful first steps have been taken by the Export Development Corporation in easing export financing impediments, much more needs to be done to improve access to both traditional and new markets. For maximum benefit, export initiatives must shift Canada's trade structure toward upgraded and finished products.

**Recommendation:** Safeguards on Canadian shares of technology development, investment, employment, value-added and sourcing of supply for Canadian subsidiaries of multinationals should be given due emphasis.

**Recommendation:** A concerted effort must be made to encourage Canadian enterprise to participate in trade opportunities arising from the growth programs of developing countries. Appropriate export vehicles and services designed for small and medium size Canadian corporations should be an integral part of this initiative.

## MANPOWER

In the medium and long-term, Canada must compete in the high skill-intensive range of the industry spectrum. Low wage competition from developing countries and the nature of international market growth opportunities provide little option. This requires that Canada achieve high productivity growth for both labour and capital.

The well documented inefficiencies of Canada's capital stock and, correspondingly, of its productivity can be corrected by wider market access to achieve economies of scale. Improved productivity depends on the structure of the industry, on marketing strategies and their effectiveness, and on strategic financial backing. Indeed, productivity on the assembly line often depends on the effectiveness of the activities of the head office.

The most profitable enterprises with the most rapidly growing, yet secure, work forces are those characterized by high skill intensity in both white collar and blue collar functions (e.g. technical, managerial, marketing, financial and industrial trades personnel). Most multinational enterprises are characterized by these features, as are the most dynamic of small enterprises. These are "knowledge-intensive" organizations. Yet Canada has a huge and growing balance of payments deficit, over \$1.3 billion in 1977, in its import of the services of managerial, technical and marketing know-how. It also has a huge and growing deficit in the import of high-skill or knowledge intensive goods.

It is in these "knowledge-intensive" activities, therefore, that much can be accomplished. There are problems in financing such activities which must be handled through capital markets; there are also problems of inducing both domestic and foreign owned corporations to undertake more "high-skill" activities in Canada. Nonetheless, the need to overcome these obstacles is clearly evident. Not the least reason for this is a growing labour market imbalance for college and university graduates.

Last February, Ontario recommended improved incentives for Canadian employment in research, design and development. Since then a number of important new initiatives by both the federal and provincial government have

been taken. Nonetheless, it is important to widen understanding and support of the range of human skills and knowledge necessary to make a successful innovation. That is why Ontario included the essential design function in its proposals for improved incentives.

**Recommendation:** Policies should be designed to reduce Canada's huge balance of payments deficit in the import of the services of managerial, technical and marketing know-how by utilizing the talents of Canadian graduates.

While many skills may be in short supply, youth, in particular, face increasing difficulty in obtaining employment, primarily because of a lack of marketable skills. A comprehensive manpower strategy is required to bridge the gap between unemployment and skill shortages. Scarce public funds required to cushion short-term unemployment should also focus on increasing the long-term employability and skills of the unemployed. Moreover, such a redirection of funds, in underwriting the expansion of skilled industrial manpower, will be directly linked to an industrial growth strategy that promotes the development of indigenous technological capabilities and of internationally competitive industries. Ontario's "Skills for Jobs" conference, held in June, concluded that more flexible means were required to assist youth in the acquisition of skills.

Last February, First Ministers agreed that priority should be placed on developing more innovative uses for Unemployment Insurance funds to provide productive employment opportunities. Recent changes to the federal employment strategy have resulted in a modest program to rechannel only \$40 million, from the more than two billion dollars the federal government spends annually on subsidizing the unemployment insurance fund, towards encouraging private sector jobs for young people.



**Recommendation:** A major program should be developed to redirect a substantial portion of present federal Unemployment Insurance funding to subsidize job creation and finance effective on-the-job training programs.

## INVESTMENT

The development of indigenous entrepreneurship in Canada requires the effective utilization of Canadian savings to support innovative activities. However, as the Royal Commission on Corporate Concentration has recently pointed out, there is tremendous difficulty for small and medium sized Canadian companies to get equity financing. Indeed, in the past several years there has been a substantial and worrisome increase in the debt-equity ratios of Canadian corporations. In an environment of high interest rates the prospects for improved investment are significantly dampened.

In response to tax incentives, Canadians place most of their savings in interest bearing instruments of financial institutions: bank deposits, trust company GIC's, RRSPs, RHOSPs, pension funds and life insurance. This institutionalization of savings has resulted in a conservative approach to investment financing. The Royal Commission on Corporate Concentration noted that the impact of the 1971 tax changes, "... has been to shift emphasis from seeking capital gains to investment in tax-sheltered or tax-free situations". This has constrained opportunities for developing indigenous Canadian entrepreneurship.

**Recommendation:** Consideration should be given to amending Canada's capital gains tax to ensure that it is not discouraging the domestic flow of private equity investment.

**Recommendation:** Ways and means should be found to increase the flow of equity investment from Canadian financial institutions.

Faced with an uncertain energy supply picture, Canada has mounted a massive exploration and development effort. Current optimism, however, about an improved domestic outlook for crude oil and natural gas supplies should not be allowed to breed complacency.

Last February, First Ministers identified a number of priority energy projects. Many are scheduled for the 1980's and they could have favourable impacts on the economy through investment, job creation and stimulus to supplying industries.

Since these projects will have a heavy capital bias, and therefore may cause displacement of investment in other important sectors of the economy, care must be taken to assure that they are proceeded with on sound economic grounds, and on a schedule which is not premature.

**Recommendation:** Energy sector developments should be economic, and initiated in a manner that will maximize the long term benefits to Canada without impairing the prospects for growth in other sectors.

## NATIONAL MARKETS

Essential to Canada's economic future is the ability to overcome regional tensions and conflicts. A fundamental part of those tensions arises from the distribution of the burdens and the benefits of maintaining a single national economy - of maintaining a customs union of separate regions with a single national identity and purpose. Yet, the ebb and flow of economic activity, changing patterns and rates of regional economic growth, often serve to heighten these tensions and threaten the commitment to a common market and a common purpose.

With the meetings of First Ministers on the economy and the constitution, important steps have been taken to establish the broad outlines of a national development program. If, however, Canadians are to meet the challenges of fierce international competition, and to maximize national and regional employment and income potential, then it is absolutely essential that a free, undistorted flow of goods and services, of workers and of capital, between the various regions of this country be maintained. Protectionism and restrictions on mobility within the Canadian market are the surest ways to cripple efforts to be internationally competitive.

The balkanization of the Canadian economy along narrow provincial or regional lines represents an enormous threat to producers who require large scale production to achieve international levels of efficiency. Moreover, it represents lost opportunities for Canadians at the forefront of dynamic, innovative, high technology industry -- industries where ultimately we must compete if we are to avoid the quagmire of competition from the low wage, low skill industries of developing countries.

**Recommendation:** Constitutional revisions should provide, as a major objective, a strong Canadian common market in which the free and undistorted flow of individuals, goods, capital and services is assured.

**Recommendation:** Constitutional revisions should provide a clarification of federal and provincial roles in economic policy so as to strengthen federal responsibilities for economic and fiscal matters of national impact and provincial responsibilities for local activities.

Government purchasing policy is one area where Canadians must not allow narrow provincial interests to destroy opportunities to build world scale industries. Governments are major purchasers of goods and services in the economy. The public sector in Canada has accounted for roughly 16 per cent of

all gross fixed capital formation for the past seven years. This is an enormous development tool that can be used for the benefit of all Canadians. It is one which has been used with devastating effectiveness by the Europeans, the Japanese and the Americans.

Recommendation:      New efforts are required to harness federal and provincial **government purchasing policies to achieve national development goals.**

An efficient transportation system is essential to a free flow of goods, to bring people and markets closer together. The overwhelming need for the linking bonds of an integrated transportation system has been with Canada since confederation - indeed, beyond that even to the earliest fur trading days on this continent. Now, energy scarcity makes the construction of an integrated, energy efficient transportation system a national imperative.

The vast distances of domestic and foreign markets make delivery times and reliability critical to capturing and holding those markets for Canadians. Transportation is key; without it Canadian industry is locked out of domestic and world markets. It is long past the time when the federal government should have fashioned the structure of transportation rates and systems that will open the doors.

The free flow of goods depends, not only on having an efficient transportation structure in place, but also on the absence of government restriction. While Canada's constitution prevents tariffs against interprovincial trade flows, there are other barriers to the free flow of goods, people and capital. A host of regulatory actions and agencies exist within both the federal and provincial jurisdictions that retard mobility; for example, in labelling



policies, marketing boards, and product standards. Moreover, differential provincial tax and subsidy arrangements can be used to approximate the effects of a tariff. Efficiency demands a harmonization of regulatory and tax policies.

Ontario based financial institutions and the savings of Ontario citizens will continue to be instrumental in development in all parts of Canada. There is, however, a philosophy held in some quarters that financial institutions should reinvest all the savings raised in a province in development projects within that province. That is a dangerous and divisive concept, and one that Ontario does not accept.

Ontario has concerns about the efficiency and national interest of the process of recycling petro dollars within Canada. The assets of the Alberta Heritage Fund are in excess of 3.3 billion dollars and increasing at over 1 billion dollars per year. The forced savings implied by this fund have impacted adversely on short-term employment and price objectives in Canada. The economy has paid a heavy price for the delays in recycling this fund towards investments which encourage the development of indigenous entrepreneurs and the long-term benefit of all Canadians.

Labour markets are another area where there is a need to rationalize and harmonize provincial and federal policies to encourage greater interprovincial mobility of skilled and professional manpower. The federal unemployment insurance program has, in various ways, contributed to the immobility problem, particularly in high unemployment regions. Similarly, various provincial regulations on certification of skilled tradesmen have reduced mobility, despite the important contribution of the Red Seal Program to improving interprovincial certification procedures.

Impediments to the free flow of goods, people and capital involve sensitive issues. Slow economic growth and high unemployment have contributed to a growing inclination toward protectionism and other forms of "beggar thy neighbour" policy. Recently in Canada, such practices have been experienced in tax policies, government procurement, mining development, occupational licensing, construction permits and in language policy. These are destructive not only of the economy, but also of goodwill and, indeed, Canadian society.

The debate on the allocation of economic activity in Canada and the substantial regional disparities this has often created has tended to ignore the major contribution of Canada's richer provinces to fiscal redistribution within the country. In recent years, the question of fiscal imbalances has gained greater attention in the debate about the financial gains and losses of Confederation. Ontario made its contribution to this debate in a Budget Paper published with the Ontario Budget in 1977. This study confirmed that the Canadian federal system is working to redistribute resources from the rich to the poorer provinces to the ultimate benefit of all Canadians.

What this study also demonstrates is the need to maintain strong economic performance and revenue generating capacities in the richer provinces. Regional economic development programs should be focused on regional strengths and not attempt to distort economic activity to the detriment of the entire country.

**Recommendation:**      **Regional development policies should be designed to accent resource, geographic and manpower advantages.**

## CONSULTATION

Consultation, co-operation and co-ordination are the bywords of successful economic policy. The fundamental reasons are well known:

- . The most fundamental problems are often national in scope and require a co-operative national response.
- . Economic interdependence often requires a co-ordinated federal approach.
- . Where labour mobility and capital mobility are so essential to efficient functioning of markets, it is imperative that governments co-operate to reduce and avoid barriers to that movement.
- . The basic structural diversity of provincial economies requires that national policy be sensitive to differential impacts on the various regional economies.
- . The attempt to co-ordinate private and regional interests with public and national interests can only be successful if economic policy is understood, if there is confidence in it and if there has been open and free participation in its formation.

Nonetheless, in recent years, despite the rapid increase in the scope and frequency of intergovernmental meetings, disharmony on the economic policy front was growing. This increasing lack of co-ordination and direction was compounded by:

- . Entanglement of different governments trying to do the same thing;
- . Encroachment as governments infringed on each other's activity; and
- . Constitutional grey areas where there are loosely defined divisions of powers.

The ensuing multiplicity of regulation and red tape confused the private sector, caused delay and misunderstanding, and sapped the vitality of the Canadian economy. Moreover, there has, until recently, been little overall direction or strategy in the formation, design or implementation of national economic policy. As a consequence a major complaint of both foreign and domestic investors was the disharmony of Canadian economic policy at various governmental levels.

The Conference of First Ministers in February was an important first step in reaching a consensus on a coordinated national economic strategy for Canada. Given the importance of the emerging federal-provincial economic policy process, it is therefore important to refine and improve it.

Recommendation: A meeting of First Ministers on the economy should be **held at least once a year.**

Recommendation: Ministers of Finance should be given the task of maintaining the overall economic co-ordination, planning and broad target setting exercise for consideration **by First Ministers.** Other federal and provincial ministers should be given the responsibility to bring forward issues requiring the attention of First Ministers.







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REMARKS BY  
THE HONOURABLE JACK H. HORNER  
TO THE  
FIRST MINISTERS CONFERENCE  
NOVEMBER 28, 1978  
OTTAWA





First Ministers have raised a number of major concerns relating to the structure and performance of the industrial sector. Many of these are key issues which will take continuing effort to resolve.

To begin on the positive side, I would like to draw attention to some achievements since the First Ministers Meeting last February. Progress has been made on two fronts. First, the industrial sector is in better shape. Secondly, important policy initiatives have been taken in many areas, some of them as follow-up to the commitments of last February.

Let me take a brief look at the current state of the industrial economy. We have experienced a modest but sustained recovery over the last 18 months. Real GNP grew by 2.7 per cent in 1977 and at an annual rate of 4 per cent in the first half of 1978.

Our economic growth has been led by strength in exports. This reflects the improved competitive position of our industrial sector, caused in part by the depreciation of our currency, as well as by moderation in wage settlements and good productivity growth. An improved energy picture, with significant new resource discoveries and the Canada-U.S. Alcan Pipeline Agreement, also has inspired greater confidence in the Canadian economy.

The manufacturing sector has responded positively to these developments.



- Manufacturing real output grew by 3.8 per cent in 1977 and by 6.6 per cent for the first half of 1978, well above the growth rate for the total economy.
- Manufacturing employment increased by 78,000 jobs in the first half of 1978, reversing a declining trend.
- In the first half of 1978, manufacturing shipments grew at an annual rate of 19 per cent, unfilled orders by 18 per cent, and manufactured exports by 23 per cent, although the size of the trade deficit in manufactured goods remains a matter of concern.
- Our recent survey of intentions of 300 large firms has indicated they are planning to increase investments by 16 per cent in 1979 over 1978 levels when measured in current dollars. In real terms, this translates into an 8 per cent volume increase.
- For the second quarter this year, pre-tax profits were up almost 16 per cent over a year ago. This is not, however, an across-the-board improvement. Industries closely tied to exporting, including wood products, forestry, paper and allied goods, and primary metals, had the best profit gains.

So it is clear that good progress has been made, even though we are not out of the woods yet. The trade balance and spotty investment and profit performance remain areas of concern. Uncertainty about the U.S. economy casts a shadow





on our prospects. Nevertheless, one important factor contributing to a better outlook facing our industries has been the more positive policy stance of governments since the last February conference.

As an overriding commitment last February, First Ministers recognized that the private sector must provide the engine for economic growth and undertook to reduce the role of government in the economy. In this regard, federal and provincial governments have all placed strong emphasis on fiscal responsibility and expenditure restraint.

With respect to other February commitments:

- The Economic Council has its study of government regulation under way and has made a progress report to this Conference.
- The federal investment tax write-off for new R & D was increased to 150 per cent in the April 1978 budget. In addition, in June new incentives were introduced to encourage the transfer of technology from government and universities to industry, and to use government procurement more effectively to accelerate technological development.
- In May 1978, the federal government implemented its "Shop Canadian" Program. A number of the provinces have undertaken similar initiatives.
- The Canadian Co-ordinator for the MTN and his staff have undertaken detailed consultations with the



provinces and the private sector. These consultations have had an important influence on Canada's negotiating position, and strengthened our hand at the MTN.

- Major changes have been announced in the Enterprise Development Program and PEMD to make them better instruments for adjustment in the 1980's.

Changes include an increase in the EDP loan guarantee ceiling from \$350 million to \$1 billion, increased support for innovation and restructuring, assistance for mergers between strong and weak firms, and increased export promotion efforts. A special MTN Panel will handle MTN-related cases. These measures complement changes to Manpower Programs to handle labour adjustment problems.

- The funding capacity of the Export Development Corporation has been expanded significantly, from \$9 billion to \$26 billion.
- In the automotive sector, joint federal-provincial assistance was provided for a new engine plant in Canada directly creating 2,600 new jobs. The automotive components duty remission scheme was introduced to encourage foreign motor vehicle manufacturers to source parts in Canada.

Mr. Simon Reisman was appointed to inquire into and report upon the means to ensure the development in





Canada of a balanced and internationally competitive automotive industry. Mr. Reisman has now submitted his report. We feel he has made a contribution to clarification of the issues and possible means of further strengthening the industry in Canada. The report and its recommendations are now under careful examination by the Government.

It is clear from this brief inventory that both federal and provincial governments have made a major effort to respond to the February commitments.

In addition, important measures have been taken by the federal government to enable the small business sector to enhance its contribution. These include sales and excise tax relief, easier transfer of business between parents, children and grandchildren, and broader capital loss deductions. A paperburden reduction office has been established and an intern program will increase jobs in small businesses for new graduates. A new business centre will provide information about all federal government business programs.

Taken together, the measures which I have outlined, together with the more positive economic developments, have meant better prospects for the industrial sector. Still, we have a long way to go.

First Ministers also directed last February that private-public sector consultations be established to consider the problems and prospects facing our industrial sector. In



response to this, the 23 industry sector task forces and the umbrella Second Tier Committee were established and have now completed their reports. These have raised a wide range of major issues, both of a general and sector specific nature. It is no coincidence that many of these issues are the same ones that First Ministers have raised today.

Three weeks ago, I met with my provincial counterparts to develop effective responses to the Second Tier and Task Force Recommendations. A joint communique was issued setting out the initial government response to the Second Tier report as well as a plan for responding to all other recommendations. I would ask First Ministers to focus their attention on this communique for a moment. It responds to recommendations in the area of government regulations, trade and the multilateral trade negotiations, industrial adjustment, manpower policies and labour relations, taxation, research and development, public procurement, and rationalization - most of the issues First Ministers have mentioned. I recommend that First Ministers direct their governments to move forward to implement these responses as a matter of high priority, and to discuss, as well, the particular viewpoints that labour and business bring to many of these questions.

Response to the task forces will be a continuing process. In cases where a quick response was possible, it was made. In the area of tax policy, a number of changes were





included in the recent budget which responded to Task Force recommendations. This included the reduction in manufacturers sales tax, the increase and extension of the investment tax credit, the higher R & D tax credit, and adjustments in tax write-offs for mining and pollution control equipment. For a number of other outstanding recommendations, it is hoped that responses can be completed sometime in the first quarter of next year and industry ministers will be meeting early next year on this. There will, of course, be some recommendations involving complex issues and trade-offs, which will have to be tackled over a longer time frame.

Finally, I think it is agreed that the consultative process has been very valuable and should be continued in one form or another. The Second Tier Committee has recommended that the process be carried on. We will be holding discussions with business, labour, and provincial governments concerning the best format for future consultations. This consultative process has been a major factor in increasing confidence in both the business and labour communities and improving government policy, and it is essential that we maximize the benefits on a continuing basis.





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TOURISM

The Honourable Larry Grossman  
Minister of Industry & Tourism

to the  
Conference of First Ministers on the Economy  
November 27-29, 1978





TOURISM  
(SUMMARY)

TOURISM IS A MAJOR INDUSTRY IN ONTARIO. IT ACCOUNTED FOR \$4.3 BILLION OF DIRECT EXPENDITURES IN 1976.

IN 1977, CANADA'S DEFICIT ON THE INTERNATIONAL TRAVEL ACCOUNT WAS \$1.6 BILLION AND IS FORECAST TO DETERIORATE IN 1978.

THE RECENT DETERIORATION IN THE TOURISM BALANCE REFLECTS:

- . AN OVERVALUED DOLLAR IN 1975 AND 1976;
- . HIGHER COSTS IN CANADA THAN IN THE UNITED STATES;
- . EXCESSIVE GOVERNMENT REGULATION;
- . SLOW U.S. INCOME GROWTH; AND
- . CHANGING CANADIAN TASTES FOR FOREIGN TRAVEL.

THE RECENT DEPRECIATION OF THE CANADIAN DOLLAR WILL BENEFIT TOURISM, BUT TO MAXIMIZE THE POTENTIAL OF THE INDUSTRY, ADDITIONAL STRUCTURAL ISSUES MUST BE ADDRESSED:

- . AIR TRANSPORT COMPETITION REMAINS A CONCERN IN CANADA RELATIVE TO OTHER JURISDICTIONS.
- . CANADA LACKS MAJOR ATTRACTIONS, FACILITIES AND EVENTS OF A SCALE AND NATURE TO ATTRACT TODAY'S DISCRIMINATING TRAVELLER.
- . CANADIAN TOURISM MARKETING EFFORTS SHOULD BE FOCUSED ON THE RAPIDLY GROWING MARKETS IN GERMANY AND JAPAN.



. THE FEDERAL GOVERNMENT SHOULD FUND AN ANNUAL TOURISM SURVEY AND DATA COLLECTION PROGRAM TO GENERATE THE INFORMATION NEEDED BY THE TOURISM INDUSTRY TO PLAN, DEVELOP AND MARKET TOURISM INTELLIGENTLY.





TOURISM PLAYS A VITAL ROLE IN CANADIAN ECONOMY. IN 1976, IT EMPLOYED SOME 830,000 PEOPLE. IN ONTARIO, TOURISM ACCOUNTED FOR \$4.3 BILLION OF DIRECT EXPENDITURES AND ABOUT 405,000 MAN YEARS OF EMPLOYMENT. PROVINCIAL TAXES COLLECTED IN RESPECT TO TOURISM YIELDED NEARLY \$800 MILLION.

TOURISM IS CLEARLY ONE OF CANADA'S MOST IMPORTANT BUSINESSES. IT IS ALSO ONE OF THE FASTEST-GROWING SECTORS OF OUR ECONOMY. IT IS LABOUR INTENSIVE. IN PARTICULAR, IT OFFERS JOBS AND INTERESTING CAREER POSSIBILITIES FOR YOUNG PEOPLE. MOREOVER, THERE ARE SIGNIFICANT OPPORTUNITIES TO EXPAND THE CONTRIBUTION OF TOURISM TO THE ECONOMY. NOT THE LEAST OF THESE IS THE BENEFITS WHICH WOULD BE REALIZED IF MORE INTERNATIONAL TRAVELLERS WERE ATTRACTED TO CANADA AND FEWER CANADIANS VACATIONED ABROAD.

#### DETERIORATING PERFORMANCE

IN 1977, CANADA'S DEFICIT ON THE INTERNATIONAL TRAVEL ACCOUNT WAS OVER \$1.6 BILLION. IT IS FORECAST TO INCREASE BY \$200 MILLION FOR A TOTAL DEFICIT OF \$1.8 BILLION IN 1978.

ALTHOUGH CANADA HAS PERSISTENTLY BEEN A NET IMPORTER OF TRAVEL SERVICES DURING THE LAST 25 YEARS, THE DEFICIT DETERIORATED MARKEDLY AFTER 1974. CHANGES IN TRAVEL PATTERNS AND OVERALL GROWTH IN CANADA'S TRAVEL DEFICIT

REFLECT A NUMBER OF FACTORS:

(A) PRICE FACTORS:

- . THE APPRECIATION OF THE CANADIAN DOLLAR;
- . RELATIVELY GREATER INCREASES IN BOTH LABOUR AND CAPITAL COSTS IN CANADA THAN IN THE UNITED STATES; AND
- . INEFFICIENT AND EXCESSIVE GOVERNMENT REGULATION, RESULTING IN HIGHER PRICES AND, IN SOME CASES, RESTRICTED SUPPLY OF THE CANADIAN TOURISM PRODUCT.

(B) INCOME FACTORS:

- . THE DEEP RECESSION IN THE U.S. IN 1974-75 AND THE SLOW RECOVERY SINCE HAS DAMPENED U.S. TOURISM TO CANADA. REAL PERSONAL INCOME IN THE U.S. GREW AT ONLY 2.9 PER CENT PER ANNUM FROM 1971 TO 1977; AND
- . TOTAL REAL PERSONAL INCOME IN CANADA GREW AT AN AVERAGE ANNUAL RATE OF 6.3 PER CENT FROM 1971 TO 1977 MAKING FOREIGN TRAVEL MORE AFFORDABLE FOR A GREATER PROPORTION OF CANADIANS.

(C) TASTE FACTORS:

- . CHANGES IN THE DEMOGRAPHIC STRUCTURE OF THE CANADIAN POPULATION SUCH THAT THE INCOME AND AGE BRACKET MOST PRONE TO INTERNATIONAL TRAVEL INCREASED;
- . A CHANGE IN TASTES FOCUSING ON NATIONAL EVENTS, SUCH AS THE BICENTENNIAL; AND
- . AN ABSENCE OF CO-ORDINATED MARKETING BY CANADIAN TOURIST OPERATORS.

## NEW OPPORTUNITIES

THERE ARE INDICATIONS OF AN IMPROVED OUTLOOK FOR TOURISM. ACTION BY GOVERNMENTS, THE PRIVATE SECTOR AND THE BENEFICIAL IMPACT OF A DEVALUED DOLLAR IN TERMS OF U.S. CURRENCY AND, EVEN MORE DRAMATICALLY, IN TERMS OF THE CURRENCIES OF WESTERN EUROPE AND JAPAN, HAVE CONTRIBUTED TO WHAT MAY BE A TURNAROUND YEAR FOR THE TOURISM INDUSTRY. ALTHOUGH THE DECLINE IN U.S. VISITORS CONTINUES, THE STRONG GROWTH IN EXPENDITURES BY NON-U.S. VISITORS IS ENCOURAGING.

NONETHELESS, POSITIVE ACTION WILL BE REQUIRED IF CANADA IS TO TAKE FULL ADVANTAGE OF THE OPPORTUNITIES WHICH ARE NOW OPEN TO THE TOURISM INDUSTRY. THE BENEFICIAL EFFECT OF IMPROVED COST COMPETITIVENESS WILL BECOME MORE POSITIVE AS INDIVIDUALS ADJUST TO THE NEW PRICE STRUCTURE OVER TIME. GOVERNMENT AND THE PRIVATE SECTOR CAN TAKE ACTION AIMED AT ACCELERATING THE ADJUSTMENT. AT THE SAME TIME, HOWEVER, OTHER STRUCTURAL FACTORS WHICH ALSO AFFECT RELATIVE COSTS MUST BE ADDRESSED.

FOUR SPECIFIC ISSUES RELATING TO THIS INDUSTRY WHERE FURTHER ACTION SHOULD BE TAKEN ARE:

- . AIR TRANSPORTATION DEREGULATION.
- . INCENTIVES FOR SPECIFIC, MAJOR TOURISM INDUSTRY DEVELOPMENT PROJECTS.

- . STRENGTHENING FEDERAL ADVERTISING PROGRAMS WITH AN IMPROVED INFORMATION DISSEMINATION COMPONENT.
- . AN IMPROVED DATA BASE ON WHICH THE INDUSTRY MAY PLAN, DEVELOP AND MARKET.

### AIR TRANSPORTATION COMPETITION

A NUMBER OF POSITIVE STEPS HAVE BEEN TAKEN BY CANADIAN AIR TRANSPORTATION REGULATORY AGENCIES AND THE CARRIERS TO OFFER A MORE ATTRACTIVE PRODUCT TO CANADIAN TRAVELLERS WITHIN CANADA. DEREGULATION IN OTHER PARTS OF THE WORLD, HOWEVER, HAS MOVED FAR MORE RAPIDLY THAN IN CANADA. ACTIONS LEADING TO GREATER COMPETITION IN OUR AIRLINE INDUSTRY, FASTER DECISIONS BY THE CANADIAN TRANSPORT COMMISSION AND A FREER MARKETING ATMOSPHERE FOR AIR CARRIERS OF ALL KINDS ARE REQUIRED. THE PUBLIC AND CANADA'S TOURISM INDUSTRY MUST HAVE THE BENEFIT OF MORE COMPETITIVE AIR FARES AND PACKAGES - SKY TRAINS AND MORE DOMESTIC CHARTERS.

### TOURISM INDUSTRY DEVELOPMENT

REASONS FREQUENTLY ADVANCED FOR CANADA'S FAILURE TO ACHIEVE GROWTH IN THE UNITED STATES MARKET, AND TO ENCOURAGE OUR OWN PEOPLE TO VACATION AT HOME, IS THAT CANADA LACKS MAJOR ATTRACTIONS, FACILITIES AND EVENTS OF A SCALE AND NATURE TO WIN THE ATTENTION OF TODAY'S DISCRIMINATING TRAVELLER. SUCH LARGE-SCALE AND HIGH QUALITY FACILITIES ARE BEING OFFERED BY OTHER JURISDICTIONS.



GOVERNMENTS SHOULD ASSIST IN THE DEVELOPMENT OF PRIVATE SECTOR OPPORTUNITIES AND CO-OPERATE IN PRIVATE SECTOR INITIATIVES ON A SELECTIVE BASIS. AS PART OF ANY INDUSTRIAL DEVELOPMENT STRATEGY, GOVERNMENTS SHOULD SUPPORT VIABLE TOURISM-ORIENTED DEVELOPMENT INITIATIVES INCLUDING: THEME PARKS, DESTINATION RESORTS AND SPECIAL RECREATIONAL FACILITIES WHERE THEY HAVE PROVEN ECONOMIC SPIN-OFF BENEFITS.

A STATEMENT OF COMMITMENT BY THE FEDERAL AND PROVINCIAL GOVERNMENTS TO PROVIDE ASSISTANCE WOULD BE OF SIGNIFICANT HELP TO DEVELOPERS AND ENTREPRENEURS IN TERMS OF MOBILIZING THE LARGE SUMS OF CAPITAL REQUIRED.

FURTHER, SUCH A COMMITMENT BY GOVERNMENTS WOULD GIVE ENTREPRENEURS SOME ASSURANCE THAT A PARTICULAR PROJECT HAS APPROVAL IN PRINCIPLE FROM GOVERNMENTS AND COULD BE EXPECTED TO MOVE THROUGH THE APPROVAL PROCESS WITH SOME DISPATCH.

#### MARKETING AND INFORMATION DISSEMINATION

THE RAPID GROWTH IN TOURISTS FROM JAPAN AND GERMANY INDICATES NEW MARKETS FOR CANADA'S TOURISM INDUSTRY. THESE MARKETS ARE, AS YET, SMALL COMPARED TO THE U.S. BUT THEY REPRESENT MAJOR GROWTH OPPORTUNITIES COMPARED TO A STAGNANT U.S. MARKET. CANADIAN MARKETING EFFORTS SHOULD BE FOCUSED ACCORDINGLY.

THE FEDERAL GOVERNMENT SHOULD AUGMENT AND IMPROVE ITS MARKETING THRUSTS IN THESE RAPIDLY EXPANDING MARKETS ABROAD. IN PARTICULAR IT SHOULD STRENGTHEN AND SHARPEN ITS ADVERTISING BUDGET AND MARKETING FOCUS EMPHASISING VERY LOW COST, TO THEM, OF CANADIAN VACATIONS. IT SHOULD REVERSE THE LAMENTABLE DETERIORATION OF ITS INFORMATION DISSEMINATION SERVICES.

#### DATA BASE AND DATA COLLECTION

THE TOURISM INDUSTRY LACKS THE TYPE OF STATISTICS CANADA DATA AVAILABLE FOR MOST OTHER INDUSTRIES. IT IS REGRETTABLE THAT BUDGET CUTBACKS HAVE PREVENTED THIS AGENCY FROM FULFILLING AN INTENTION OR PROMISE MADE TO PROVINCIAL GOVERNMENTS SEVERAL YEARS AGO.

THE FEDERAL GOVERNMENT, THROUGH ITS DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE, SHOULD ALLOCATE FUNDS TO STATISTICS CANADA TO CONDUCT AN ANNUAL TOURISM SURVEY AND DATA COLLECTION PROGRAM TO GENERATE THE INFORMATION ON WHICH BOTH THE PUBLIC AND PRIVATE ELEMENTS OF THE TOURISM INDUSTRY COULD INTELLIGENTLY PLAN, DEVELOP AND MARKET TOURISM.

WE MUST MORE AGGRESSIVELY AND QUICKLY TURN THE OPPORTUNITIES PRESENTED BY OUR DEPRECIATED DOLLAR INTO REALIZED GAINS - MORE TOURISTS FOR CANADA - AND COMING FROM NEW MARKETS IN EUROPE AND THE FAR EAST.

WE ARE OPTIMISTIC THAT APPROPRIATE AND EARLY RESPONSES  
IN THESE AREAS CAN RESULT IN APPRECIABLE GAINS FOR OUR  
IMPORTANT TOURIST INDUSTRY.





NOVEMBER 28, 1978

REGIONAL ECONOMIC DEVELOPMENT

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NOTES FOR STATEMENT BY  
THE HONOURABLE MARCEL LESSARD,  
MINISTER OF REGIONAL ECONOMIC EXPANSION,  
CONFERENCE OF FIRST MINISTERS ON THE ECONOMY,  
NOVEMBER 1978



OBVIOUSLY I AGREE WITH PREMIER MOORES AND MANY OTHERS AROUND THIS TABLE ON THE IMPORTANCE OF REDUCING REGIONAL DISPARITIES. REGIONAL ECONOMIC DEVELOPMENT GOES TO THE VERY HEART OF THE CONCEPTS OF ECONOMIC FAIRNESS AND JUSTICE IN OUR FEDERAL SYSTEM. THE OBJECTIVE OF ACHIEVING VIABLE AND SELF-SUSTAINING REGIONAL ECONOMIES IS A FUNDAMENTAL PART OF THE NATIONAL CONSENSUS THAT UNDERLIES THE FEDERATION.

FEDERAL POLICIES, PARTICULARLY SINCE THE LATE 1960s, HAVE INCREASINGLY DIRECTED RESOURCES TOWARDS THE REGIONS MOST IN NEED OF ECONOMIC SUPPORT. THE CANADA WORKS PROGRAM, UNEMPLOYMENT INSURANCE, INVESTMENT AND EMPLOYMENT TAX CREDITS HAVE ALL BEEN SIGNIFICANTLY "TILTED" IN FAVOUR OF LAGGING REGIONS. IT IS PARTICULARLY IMPORTANT, I THINK, TO MENTION THE SUBSTANTIAL INCREASES IN REGIONAL RATES UNDER THE INVESTMENT TAX CREDIT WHICH SHOULD INDUCE MORE ENTREPRENEURS TO ESTABLISH, MODERNIZE OR EXPAND FACILITIES IN THE SLOWER GROWTH REGIONS. I SEE THIS IMPORTANT CHANGE IN THE INVESTMENT TAX CREDIT AS BEING COMPLEMENTARY

TO THE EXISTING PROGRAM OF REGIONAL DEVELOPMENT INCENTIVES TO BUSINESS. IN THIS REGARD, IT IS ENCOURAGING TO NOTE THAT THE NUMBER OF APPLICATIONS UNDER THE REGIONAL DEVELOPMENT INCENTIVES PROGRAM HAS GROWN FROM 1,143 IN 1976 TO 1,238 IN 1977 AND IS ALREADY AT THE 1,500 PER ANNUM LEVEL BASED ON THE FIRST SIX MONTHS OF 1978.

THE NATIONAL OIL PRICING POLICY, A TRULY FEDERAL AND PROVINCIAL POLICY ULTIMATELY SUPPORTED BY THE WILLINGNESS OF WESTERNERS TO SELL THEIR RESOURCES AT PRICES BELOW THOSE PREVAILING ON THE INTERNATIONAL MARKET, HAS HAD A VERY SIGNIFICANT EFFECT ON ALLEVIATING ECONOMIC DISLOCATION WHICH COULD BE PARTICULARLY DIFFICULT IN DEPRESSED AREAS. SINCE 1972, THE PEOPLE OF SASKATCHEWAN AND ALBERTA HAVE, IN EFFECT, FOREGONE BILLIONS OF DOLLARS IN REVENUES IN ORDER TO EASE THE PROCESS OF ADJUSTMENT IN THE REST OF CANADA.

IN ADDITION TO THESE GENERAL "FRAMEWORK" POLICIES, MANY SPECIFIC INITIATIVES HAVE BEEN UNDERTAKEN. THE GOVERNMENTS OF CANADA AND NEWFOUNDLAND HAVE JUST ANNOUNCED THE FORMATION OF THE LOWER CHURCHILL DEVELOPMENT CORPORATION. I AGREE WITH PREMIER MOORES THAT THIS TYPE



OF PROJECT, IN CONJUNCTION WITH THE PRUDENT DEVELOPMENT OF THE FISHING POTENTIAL RESULTING FROM OUR DECLARATION OF THE 200-MILE LIMIT, PROVIDES AMPLE REASON FOR OPTIMISM THAT NEWFOUNDLAND AND THE ENTIRE ATLANTIC REGION CAN AND WILL OVER TIME DEVELOP DYNAMIC AND SELF-SUSTAINING ECONOMIES. OTHER FEDERAL INITIATIVES, SUCH AS THOSE IN THE TRANSPORTATION AREA -- INVOLVING, BY WAY OF EXAMPLE, PORT DEVELOPMENT, AIRPORT CONSTRUCTION, IMPROVED RAIL SERVICES, AND THE CONSTRUCTION OF HIGHWAYS -- HAVE BEEN UNDERTAKEN AND WILL BE DISCUSSED LATER BY MY COLLEAGUE, MR. LANG.

THERE ARE ENCOURAGING ELEMENTS IN THE MEDIUM-TERM PROSPECTS FOR EVERY REGION OF THE COUNTRY, AS MY DOCUMENT ENTITLED "ECONOMIC CIRCUMSTANCES AND MEDIUM-TERM PROSPECTS BY PROVINCE" SHOWS QUITE CLEARLY. A REVIEW OF ECONOMIC CONDITIONS OVER THE COURSE OF 1978 AND FORECASTS FOR 1979 REVEAL STRONGER ECONOMIC ACTIVITY IN ALL REGIONS OF CANADA. THE DEVALUATION OF THE CANADIAN DOLLAR HAS IMPROVED OUR COMPETITIVENESS AND THIS HAS LED TO A SIGNIFICANT INCREASE IN ACTIVITY IN THE MANUFACTURING SECTORS IN ONTARIO AND QUEBEC. THE WESTERN REGION ECONOMY CONTINUES TO BE DOMINATED BY RESOURCE-RELATED ACTIVITIES WITH ALBERTA AND BRITISH COLUMBIA HAVING AN

ABOVE-AVERAGE GROWTH. THERE IS NOW GREATER OPTIMISM IN MANITOBA AND MINERAL PROSPECTS IN SASKATCHEWAN ARE GOOD. MEDIUM AND LONG-TERM PROSPECTS IN THE ATLANTIC ARE ALSO GOOD, DUE TO THE POTENTIAL OF SUCH RESOURCES AS HYDRO, MINERALS AND FISHERIES.

THIS OVERALL PICTURE OF THE CANADIAN ECONOMY SHOULD BE A SOURCE OF SOME SATISFACTION TO US AS CANADIANS. DESPITE ALL OUR PROBLEMS, DESPITE OUR GROWING PAINS, DESPITE THE STRESSES AND STRAINS AND ALL THE CHANGES THAT WE ARE GOING THROUGH, WE AS A PEOPLE HAVE NEVER BACKED OFF FROM OUR COMMITMENT TO REGIONAL ECONOMIC EQUITY..

SOME EVIDENCE OF THAT IS TO BE FOUND IN THE RECORD ACHIEVED UNDER THE SYSTEM OF GENERAL DEVELOPMENT AGREEMENTS SIGNED IN 1974 BETWEEN MY DEPARTMENT, ON BEHALF OF THE FEDERAL GOVERNMENT, AND EACH OF THE PROVINCIAL GOVERNMENTS (EXCEPT PRINCE EDWARD ISLAND WHERE A LONG-TERM COMPREHENSIVE DEVELOPMENT PLAN SERVES A SIMILAR PURPOSE). BETWEEN 1974 AND FEBRUARY 1978, THE TIME OF THE LAST CONFERENCE OF FIRST MINISTERS ON THE ECONOMY, A TOTAL OF 77 SUBSIDIARY AGREEMENTS, EACH AIMED

AT A PARTICULAR DEVELOPMENTAL OPPORTUNITY OR CONSTRAINT, HAD BEEN SIGNED AND PUT INTO OPERATION. BETWEEN THE TWO CONFERENCES, THE SYSTEM HAS CONTINUED TO FUNCTION QUIETLY AND EFFECTIVELY, RESULTING IN THE SIGNING OF 13 NEW AGREEMENTS AND 13 MAJOR AMENDMENTS TO EXISTING AGREEMENTS, REPRESENTING AN ADDITIONAL COMMITMENT BY THE FEDERAL GOVERNMENT OF SOME \$573 MILLION.

AND THE PACE OF ACTIVITY -- COORDINATED FEDERAL-PROVINCIAL ACTIVITY IN SUPPORT OF REGIONAL ECONOMIC DEVELOPMENT ACROSS THE COUNTRY -- IS BEING FULLY MAINTAINED. AS A RESULT OF FEDERAL DECISIONS MADE IN AUGUST, AND ANNOUNCED IN EARLY SEPTEMBER BY MESSRS. CHRETIEN AND ANDRAS, I HAVE SINCE BEEN ABLE TO TALK TO MOST OF THE PROVINCIAL GOVERNMENTS ABOUT POSSIBLE ADDITIONS AND MODIFICATIONS UNDER THE GDA SYSTEM -- ADDITIONS AND MODIFICATIONS DESIGNED TO STRENGTHEN OUR JOINT EFFORT IN THE RESOURCE INDUSTRIES, IN TOURISM AND IN THE PROVISION OF INDUSTRIAL INFRASTRUCTURE. AS A RESULT, I AM SATISFIED THAT A SERIES OF IMPORTANT ADDITIONAL INITIATIVES WILL BE READY FOR LAUNCHING IN THE NEAR FUTURE.

I AM VERY PLEASED WITH THE LEVEL OF SUPPORT AND COOPERATION I HAVE BEEN RECEIVING, NOT ONLY FROM MY OWN COLLEAGUES, BUT FROM PROVINCIAL MINISTERS AND OFFICIALS THROUGHOUT CANADA.

BUT I HAVE NO INTENTION HERE OF GIVING WAY TO A SENSE OF SELF-SATISFACTION. THAT IS WHY I HAVE ASKED MY OFFICIALS TO INTENSIFY THEIR ONGOING REVIEW OF EXISTING POLICIES AND INSTRUMENTS. THE VIEWS EXPRESSED AT THIS CONFERENCE, AND IN OTHER FEDERAL-PROVINCIAL EXCHANGES, WILL BE TAKEN CAREFULLY INTO ACCOUNT AS WE PROCEED WITH THIS WORK, SEARCHING FOR WAYS AND MEANS OF IMPROVING STILL FURTHER OUR CONTRIBUTIONS TO THE NATIONAL EFFORT IN SUPPORT OF BALANCED ECONOMIC GROWTH AND DEVELOPMENT.





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REGIONAL DEVELOPMENT IN CANADA

The Honourable William G. Davis  
Premier of Ontario

to the  
Conference of First Ministers on the Economy  
November 27-29, 1978



## Regional Development in Canada

### (Summary)

New principles and directions are required to improve the effectiveness of the Nation's regional development commitment. Despite the massive Federal spending aimed at reducing regional disparities, results to date have been disappointing.

This does not mean that the objective of reducing regional disparities is unattainable. Rather, Canada is at a point where it must reassess the effectiveness of its regional development effort. In this re-evaluation, four guiding principles should be followed:

COMMITMENT: Reducing regional disparities must be supported by all provinces.

NATIONAL NEEDS: If regional efforts are to have a firm and sound foundation, top priority must be given to the development of a strong national industrial base. The underlying strength of the more prosperous regions must be maintained.

SELF RELIANCE: Programs should be directed to supporting local economic strengths and comparative advantages that will provide self-sustaining growth.

DISENTANGLEMENT: If the regionally depressed areas are to develop their resources and potential they must have the capacity to exercise the required decisions.

Cost-effective policy thrusts supporting these principles should be pursued within the context of the federal-provincial review of national economic policy.





## REGIONAL DEVELOPMENT IN CANADA

Commitment to reducing regional disparities is a long accepted national priority in Canada, one that Ontario fully supports. The economically less fortunate regions of Canada must be given the assistance of those regions or provinces which are economically stronger. This commitment was reaffirmed during the recent First Ministers' discussions on the constitution.

New principles and directions are required to improve the effectiveness of the nation's regional development commitment.

### The Record

The federal government has implemented massive spending programs with the ultimate aim of creating a fully-diversified economic base in the slower-growth areas of the country.

Evaluating the total impact of regional development programs is a difficult and complex effort. A number of studies, with inconclusive results, have been conducted.\*

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\* For example see: Economic Council of Canada, Living Together: A Study of Regional Disparities (Ottawa: Department of Supply and Services, 1977); and G. Reuber, "The Impact of Government Policies on the Distribution of Income in Canada: A Review"; Canadian Public Policy, Autumn, 1978.

However, methodological and statistical arguments amongst academics should not be permitted to cloud the important public debate about the effectiveness of these efforts. The acid test of any regional development effort is its ultimate impact on jobs and incomes across the country.

The best single indicator of our national effort to reduce economic disparities is the combined impact of federal revenues and expenditures in each province. In a sense, this presents the "bottom line" of the federal fiscal effort. The available data shows that since 1972,

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SURPLUS (DEFICIT) IN EACH PROVINCE  
FROM FEDERAL GOVERNMENT ACTIVITY, 1972 TO 1976  
(\$ Millions)

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<u>Province</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Newfoundland	(373)	(435)	(619)	(817)	(797)
Prince Edward Island	(113)	(125)	(163)	(231)	(246)
Nova Scotia	(609)	(699)	(958)	(1,204)	(1,240)
New Brunswick	(375)	(443)	(580)	(823)	(867)
Quebec	(20)	79	(575)	(2,066)	(1,707)
Ontario	1,784	2,393	2,734	1,138	1,298
Manitoba	(275)	(279)	(249)	(401)	(406)
Saskatchewan	(433)	(407)	(168)	(300)	(183)
Alberta	95	312	1,869	1,981	2,049
British Columbia (including the Yukon and N.W.T.)	197	514	563	107	140

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Source: Statistics Canada

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in combined terms, the federal government has run an overall deficit in virtually every province of Canada, with the exception of British Columbia, Alberta and Ontario.\* It should be noted that, subsequent to 1973, the surplus in Alberta became considerably inflated by the inclusion of revenues from the export tax on oil and natural gas shipments to the United States.

Despite this effort, however, personal income per capita among the provinces, over the period 1970-77, shows only a marginal narrowing of the income gap.

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PERSONAL INCOME PER CAPITA BY PROVINCE  
(Per Cent of Canadian Average)

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	<u>1970</u>	<u>1973</u>	<u>1975</u>	<u>1977</u>
Newfoundland	63.4	63.7	68.5	68.2
Prince Edward Island	66.5	69.7	70.1	67.2
Nova Scotia	77.4	79.9	79.1	79.5
New Brunswick	72.0	72.9	77.0	75.1
Quebec	88.7	89.4	91.1	93.2
Ontario	118.4	113.5	109.8	109.3
Manitoba	92.9	96.0	96.6	93.0
Saskatchewan	72.5	91.4	103.2	92.4
Alberta	99.2	100.2	103.8	104.3
British Columbia	108.8	110.5	108.4	110.1
CANADA	100.0	100.0	100.0	100.0

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Source: Statistics Canada

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\* See also "Federal Fiscal Redistribution Within Canada", Budget Paper E, 1977 Ontario Budget, Ontario Ministry of Treasury, Economics and Intergovernmental Affairs.

Moreover, much of the narrowing in income differences that there has been between provinces on a per capita basis has been due to a proportionately higher inflow of government transfer payments to some regions rather than to an increase in real economic activity and productivity in the slow-growth regions of Canada.

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GOVERNMENT TRANSFER PAYMENTS TO PERSONS  
(Per Capita and as a Percentage of Total Personal Income)

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	1970		1977	
	\$	%	\$	%
Newfoundland	433	21.8	1,460	28.9
Prince Edward Island	390	18.7	1,155	23.2
Nova Scotia	326	13.4	1,061	18.0
New Brunswick	346	15.4	1,171	21.1
Quebec	306	11.0	1,096	15.9
Ontario	333	9.0	856	10.6
Manitoba	328	11.3	845	12.3
Saskatchewan	302	13.3	968	14.2
Alberta	315	10.1	797	10.3
British Columbia	364	10.7	973	11.9
CANADA	328	10.5	964	13.0

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Source: Statistics Canada

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Despite a massive federal expenditure effort, high unemployment in Atlantic Canada and Quebec has been a stubbornly persistent feature of the Canadian economic environment. Some provinces suffer a rate of unemployment almost four times that of the most prosperous regions.



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UNEMPLOYMENT RATES BY PROVINCE  
(Seasonally adjusted: per cent)

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	<u>October, 1978</u>
Newfoundland	16.8
Prince Edward Island	9.9
Nova Scotia	10.2
New Brunswick	12.4
Quebec	10.4
Ontario	7.0
Manitoba	6.5
Saskatchewan	4.6
Alberta	4.7
British Columbia	8.2
CANADA	8.2

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Source: Statistics Canada

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These discouraging indications should not be interpreted as evidence that the objective of reducing regional disparities is doomed as a futile exercise. Without existing programs the disparity would be even greater. However, Canada has arrived at a point where it must reassess the effectiveness of its regional development effort.

Many programs now in place were developed within a framework of economic circumstances that are different from the conditions being faced today. Just as the entire thrust of national economic policy is being re-evaluated, so too, it is appropriate to examine the basic structure of regional development programming.

## Issues

The existing configuration of federal programs which affect regional economic well-being is not achieving the desired results. This arises from a number of problems.

First, programs are not suitably tailored to the objective of regional self-reliance. Large amounts of money and effort are devoted in an attempt to promote growth in defiance of local and national economic realities. This can lead to failure, disenchantment and perpetual subsidization. The resulting disillusion can create a damaging psychological climate for future development.

Second, there has been an over-emphasis on establishing a strong local federal presence in some regions. Sometimes the well-intentioned federal interest in regional development transforms itself into bureaucratic meddling in provincial affairs.

Third, the debate on the effectiveness of regional incentive policies may be too narrowly focussed. As noted earlier, the impact of the fiscal effort of the federal government provides a more appropriate focus for examining regional policies.

Fourth, it is unreasonable for some regions to accumulate massive fiscal surpluses while others suffer

unacceptable income disparities and unemployment levels. For example, the Alberta Heritage Trust Fund has well over 70 per cent of its current resources allocated to Alberta investments. A strong commitment to the principle of regional development would suggest that in future a significant part of this growing Fund be allocated to investment opportunities beyond the Alberta borders.

### New Directions

In re-evaluating the national approach to regional development, it is suggested that the following principles be adopted:

Commitment: Reducing regional disparities must continue to carry a high priority and must be supported equitably by all provinces. Ontario has demonstrated that it has an will support regional income redistribution and act as a responsible partner in Confederation.

National Needs: While the goals of regional development must be supported in their own right, governments must recognize that the paramount objective for Canada today is the development of an industrial base that can withstand the rigors of international competition. Top priority must be given to this objective of supporting those sectors of the Canadian economy which have a clear competitive advantage or a promising future.

Self-Reliance: Effective regional development efforts must be aimed at engendering self-sustaining growth. Moreover, care must be taken to ensure that in attempting to strengthen low-growth regions in Canada, the underlying strength of more prosperous regions not be weakened.

Disentanglement: If the regionally depressed areas are to be in a position to develop their resources and potential they must have greater control over some decisions made at the federal level that vitally affect their development.

Within the framework of the above principles, there are a number of policy thrusts that should be pursued in the overall context of federal-provincial review of national economic policy:

- . Full recognition must be given to the priority of moving toward national economic goals by improving the efficiency and competitiveness of the national economy. Only from such a solid base will regional policies flourish in the long run.
- . New approaches to addressing the problem of regional disparities must be developed within a framework of rigid fiscal restraint. It is not a matter of more resources; it is a matter of more effectively allocating existing funds.
- . New programs should be tightly directed to supporting local economic strengths and comparative advantages. There must be a frank recognition that wide-ranging diversification will not always be a reasonably attainable goal.
- . Policies should build on and reinforce initiatives flowing from the private sector. A strong market economy is a prerequisite for long-term growth and prosperity.



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Ottawa, November 29, 1978

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Notes by

Finance Minister Jean Chrétien

On Federal Fiscal Contributions  
to Quebec and Financial Claims  
by the Quebec Government

November 29, 1978

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Faculty of Management Studies  
University of Toronto



### IMPORTANCE OF FEDERAL TRANSFERS TO QUEBEC

The Quebec budget for 1978-79 estimates that the province's total budgetary revenues for 1978-79 will be \$12,300 million. Federal Main Estimates for this fiscal year indicate total transfers to Quebec of \$4,349.1 million. Federal transfers therefore represent 35.4 per cent of Quebec's total budget.

Further, federal government transfers to the Province of Quebec represent 32.4 per cent of all federal transfers to the 10 provincial governments. Quebec has 26.8 per cent of total provincial population. Following is a breakdown of 1978-79 federal payments to the Province of Quebec:

<u>Program</u>	<u>Amount of Transfers</u>		<u>Quebec as Share of Total %</u>
	<u>Quebec</u> \$000'000	<u>All Provinces</u> \$000'000	
Equalization	1,350.3	2,687.6	50.2
Established Programs Financing	2,094.9	7,919.5	26.5
Canada Assistance Plan	581.5	1,628.8	35.7
Other	<u>322.4</u>	<u>1,199.4</u>	<u>26.9</u>
<u>Total</u>	<u>4,349.1*</u>	<u>13,435.3</u>	<u>32.4</u>

\* See attached table for detail.

Main Estimate of Federal Transfers to Quebec, 1978-79

	Amount <u>\$000'000</u>
<u>Program</u>	
Equalization	1,350.3
Statutory Subsidies	4.5
1972 Revenue Guarantee-Prior Years	22.0
1971 Undistributed Income on Hand	5.5
Public Utilities Income Tax Transfer	2.5
Youth Allowances Recovery	-132.1
Reciprocal Taxation	<u>24.9</u>
<u>Total Fiscal Transfer Cash Payments</u>	<u>1,277.6</u>
Hospital Insurance	426.5
Medicare	151.3
Post-Secondary Education	277.0
Extended Health Care	<u>139.4</u>
<u>Established Programs Financing Cash Payments</u>	<u>994.2</u>
Canada Assistance Plan	381.6
Health Resources Fund	10.3
Other Health and Welfare	4.7
Bilingualism Development	121.2
Economic Development	95.1
Crop Insurance	2.1
Municipal Grants	<u>29.6</u>
<u>Total Other Cash Payments</u>	<u>644.6</u>
<u>TOTAL CASH TRANSFERS</u>	<u>2,916.4</u>
<u>Program Tax Transfers</u>	
Established Programs Financing Tax Transfer	
13.5 Personal Income Tax Points	671.2
1.0 Corporate Income Tax Point	45.6
Contracting-Out Tax Transfer	
8.5 Personal Income Tax Points for EPF	383.9
5.0 Personal Income Tax Points for CAP	199.9
3.0 Personal Income Tax for Youth Allowances	<u>132.1</u>
<u>TOTAL VALUE OF PROGRAM TAX TRANSFERS</u>	<u>1,432.7</u>
<u>TOTAL CASH PLUS TAX TRANSFERS</u>	<u>4,349.1</u>



## NOTES RESPECTING FINANCIAL CLAIMS BY THE QUEBEC GOVERNMENT

Quebec's Finance Minister, Mr. Parizeau, has claimed that the federal government is withholding substantial sums from the province of Quebec. He has stated that these amount to \$511 million in 1978-79 and to \$727 million in 1979-80.

The attached table shows how Mr. Parizeau arrives at these sums and indicates which claims are recognized by the federal government. (Detailed notes on individual items are appended.)

### Fiscal Year 1978-79

The federal government does not recognize any obligation to the government of Quebec with respect the following items raised by Mr. Parizeau: (1) the revenue guarantee program; (2) contributions for the fifth year of secondary school in Quebec; (3) the RCMP contracts; (4) the census population count; or (5) the special abatement under the contracting-out arrangements. This reduces the amount for 1978-79 from \$511 million to \$68 million.

The \$68 million for 1978-79 is made up of \$37 million for Established Programs Financing and \$31 million for the Canada Assistance Plan.

The \$37 million for Established Programs Financing has been recognized and will be paid. The Quebec government was informed of this decision on November 2, 1978. The \$31 million claimed under the Canada Assistance Plan as a prior year adjustment will probably be offset by overpayments made in earlier years.

Hence, of the \$511 million claimed by Mr. Parizeau only \$37 million is recognized as being owed to the Quebec government. Mr. Parizeau has already been informed that the amount will be paid.

Fiscal Year 1979-80

The federal government does not recognize any obligation to the government of Quebec with respect of the following items raised by Mr. Parizeau:

(1) the revenue guarantee program; (2) contributions for the fifth year of secondary school in Quebec; (3) the RCMP contracts; (4) the census population count; (5) the special abatement under the contracting-out arrangements; (6) language training for immigrants; or (7) the expenditure reductions which affect all provinces. This reduces the amount for 1979-80 from \$727 million to \$68 million.

This \$68 million is in respect of Established Programs Financing.

This amount will be paid. The Quebec government was informed of this decision on November 2, 1978.

# QUEBEC FINANCIAL CLAIMS AND FEDERAL POSITION

	1978-79		1979-80	
	<u>Government of</u>	<u>Federal</u>	<u>Government of</u>	<u>Federal</u>
	<u>Quebec Claim</u>	<u>Position</u>	<u>Quebec Claim</u>	<u>Position</u>
	(\$ millions)			
Revenue Guarantee	100	0	100	0
Secondary V School Grade Costs	100	0	100	0
RCMP	130	0	140	0
Census Population Count	78	0	85	0
Special Abatement (Contracting-Out)	35	0	35	0
Established Programs Financing	37	37	68	68
Canada Assistance Plan	31	0	-	-
Immigrants Language Instruction	-	-	8	0
Expenditure Restraint				
General Cuts	-	-	44	0
Community Services	-	-	48	0
Social Services	-	-	10	0
Unemployment Insurance	-	-	10	0
Phase-Out of Crown Leases	-	-	36	0
Deferment of Oil Price Increases	-	-	43	0
TOTAL	<u>511</u>	<u>37</u>	<u>727</u>	<u>68</u>

## 1977 Fiscal Arrangements

Mr. Parizeau referred to a letter dated March 1, 1977, from Mr. Lévesque to the Prime Minister to the effect that Quebec would lose some \$320 million when the new fiscal arrangements came into effect on April 1, 1977. This \$320 million was made up of the following components:

Equalization	\$ 80 million;
Special Welfare	\$ 40 million;
Revenue Guarantee	\$100 million; and
Secondary V	\$100 million.

Equalization. When the equalization formula was revised and up-dated at the beginning of 1977-78 a number of adjustments were made. The adjustments were the result of extensive study, and reflected changes agreed upon by the federal government and the provinces. In fact equalization payments to Quebec increased from \$1,056 million in 1976-77 under the old formula to \$1,266 million in 1977-78 under the new formula. This was an increase in one year of \$210 million.

Special Welfare. As far as the Special Welfare program is concerned, the "loss" to Quebec would have been occasioned by shifting the abatement of 5 personal income tax points in respect of the program from a calendar year to a fiscal year basis and by recovering the value of the abatement in respect of the first quarter of 1977. This would have made the abatement consistent with the new Established Programs Financing tax transfer. However, in response to representations from Quebec, the abatement was not shifted and no recovery was made. Hence, there was no loss to Quebec. Mr. Parizeau has conceded in his statement of November 27, that the original estimate of Quebec's loss of \$320 million was high and has suggested that it should be reduced to \$200 million. This latter amount is in respect of the Revenue Guarantee and Secondary V.



Revenue Guarantee. The Revenue Guarantee program was introduced in 1972 to protect the provinces against the uncertainty arising out of tax reform. Although Quebec failed to adhere fully to the reformed tax system and was therefore technically ineligible for protection under the program, the federal government nevertheless decided to extend the revenue benefits to the province because of its fiscal problems. However, the program had a five-year term and expired, as planned, on March 31, 1977. The claim that Quebec lost as a result of the scheduled expiry of the program is not recognized as valid. Moreover, the provinces received the equivalent of two personal income tax points as part of the negotiated settlement with respect to the new fiscal arrangements.

Secondary V. As far as compensation in respect of "Secondary V" is concerned, it is true that the federal government no longer contributes toward the cost of the fifth year of secondary school in Quebec under the new post-secondary education arrangements. However, contributions under the old shared-cost arrangements are built into the Established Programs Financing base. All provinces, including Quebec, benefit as a result.

## Payroll Tax to Finance Quebec Medical Care Insurance Plan

The federal government paid the tax levied on employers to finance the Quebec medical care insurance plan (RAMQ) retroactively to April 1, 1975. Mr. Parizeau claims that some \$19 million is owing to Quebec in respect of the period from the commencement of RAMQ to April 1, 1975.

April 1, 1975, is the commencement date because this is the date upon which the reciprocal taxation arrangements were originally planned to commence. Before these arrangements were provided for, the principle recognized by each government was that neither level was taxable by the other. With the adoption of the reciprocal tax arrangements under which the federal and participating provincial governments agree to pay consumption taxes to each other, the federal government recognized that these payroll taxes should be paid, and that the effective date should be the date originally planned for the initiation of the arrangements.

### Sales Tax on Olympic Installations

Mr. Parizeau claims the federal government should refund to the Olympic Installations Board (Régie des installations olympiques) some \$18 million in federal sales taxes paid by the Board. Because of the legal status of this Board, it is subject to the payment of federal sales taxes. This rule has been applied in all other similar cases, e.g. the agencies created for the British Empire Games in Vancouver in 1954, Expo 67 in Montreal, the Pan American Games in Winnipeg in 1967, and the Olympic Games for the Handicapped in Toronto in 1976.

The federal government did not exempt materials used for olympic installations because the Olympic Installations Board did not meet the requirements of the Excise Tax Act; only government agencies are entitled to a refund of such taxes. There is a danger that organizations could otherwise be designated as government agencies simply to avoid the payment of the federal sales tax.

### Census Population Count

In calculating equalization payments, the federal government uses the official population figures published by Statistics Canada. Mr. Parizeau believes that the federal government should adjust these figures to take into account estimates of the number of people not enumerated during the census. The federal government cannot take this adjustment into account for any particular program in any province until the Chief Statistician is prepared to incorporate these estimates into the official estimates of population numbers.



### Effect of Deferring Oil Price Increase

Mr. Parizeau points out that equalization payments would be increased if the scheduled oil price increase of \$1.00 a barrel in January 1979 is proceeded with. This is true, but the postponement of oil and gas price increases will save the people of Quebec over \$200 million in fuel costs during 1979-80.

The federal government cannot refrain from making desirable policy changes because of the effect of such changes on equalization payments. The equalization formula is designed to respond automatically to changes in economic activity and policy changes by both levels of government. Some of these changes have the effect of increasing equalization and others of decreasing it.

### Higher Welfare Costs Because of U.I.C. Changes

Mr. Parizeau claims that it will cost the government of Quebec an additional \$25 million in welfare costs because of the changes in the Unemployment Insurance Act.

However, because the federal government pays one-half of provincial social assistance costs under the Canada Assistance Plan, any additional Quebec costs are effectively halved.

Further, Mr. Parizeau did not acknowledge offsetting increases in federal transfers to Quebec residents resulting from the reordering of government priorities announced in August. For example, the Guaranteed Income Supplements for elderly Quebec residents will be more than \$80 million higher in 1979-80.

## Language Instruction for Immigrants

Mr. Parizeau contends that the federal government has withdrawn contributions to centres for the orientation and training of immigrants.

Mr. Parizeau's statement is not correct.

Allowances to immigrants are now paid only to independent immigrants and refugees. Members of families and assisted relatives are no longer eligible for allowances because their sponsors have accepted responsibility for them. However, Quebec has decided on its own to pay allowances to immigrants who have "sponsors". This is the decision of the Quebec government.

## Equalization in Respect of the Sale of Crown Leases on Oil and Gas Lands

As part of the expenditure reduction program announced by the federal government during recent months, it was decided to exclude this type of provincial revenue from the equalization formula. The equalization program is designed to transfer to the lower income provinces sufficient revenues to enable them to provide a national average of basic public services without having to levy above-average levels of provincial taxation. The rapid increase in oil and gas revenues from the sale of Crown leases in Alberta was clearly causing major distortions in the entire program. For example, the continued inclusion of these particular revenues would likely result in the Province of Ontario qualifying for equalization. If Ontario - with personal income per capita well in excess of the national average - were to qualify for equalization, the legitimate national objectives of the whole program would be adversely affected. In addition, it has long been argued that these revenues differ from others inasmuch as they derive from the sale of assets and they are not being used by the oil and gas producing provinces to finance current public services.

This source of revenue will be phased out of the formula over two years. Mr. Parizeau stated that Quebec would lose \$72 million because of the change. This is the estimated amount when the revenue source is fully phased out in two years. Even with this change, equalization payments to Quebec will increase from \$1.3 billion in 1978-79 to over \$1.4 billion in 1979-80.



Quebec Reference to Miscellaneous Federal  
Cuts Totalling \$44.6 Million

The miscellaneous amounts listed by Quebec represent the Quebec share of proposed reductions in special purpose programs which was included in the \$2.5 billion cut announced by the President of the Treasury Board earlier this year. The Quebec share of these reductions is closely comparable to its share of total provincial population.

### Community Services Grant Program

As part of the expenditure reduction program, the federal government considered very seriously the outright cancellation of a proposed new program for community services grants. However, in the course of negotiations with the provinces, representations were made by some provinces - including Quebec - concerning the importance of this program to municipalities. As a consequence, it was decided to proceed with the program, but to defer its implementation from 1979-80 to 1980-81.

## Commuter Trains

Mr. Parizeau has referred to the question of commuter services in the Montreal region and who should be responsible for operating deficits.

Commuter services fall within the realm of urban transportation which is a responsibility of the provincial and local governments. Under its Urban Transportation Assistance Program, the federal government does provide capital assistance for urban transportation projects in accordance with provincial priorities. Over the next five years, the government of Quebec will receive \$62 million under this program. The program is not intended to meet operating deficits of urban transportation services. Any additional capital assistance or assistance to meet operating deficits is the responsibility of the provincial and local governments.

Because of declining patronage and rising costs, both railways, Canadian Pacific and Canadian National, have in recent years had to absorb increasing losses on their commuter services in the Montreal area, and have understandably taken steps to reduce these losses. These decisions are not related to federal spending cuts. The federal government has not in fact had any responsibility for these losses. As in other parts of the country, such as Ontario, where financial responsibility for the operation of commuter services has been assumed by the provincial government, the future of these services is a matter for the Quebec and Montreal area governments to consider in the context of their overall planning for transportation facilities with the urban region.

### Outstanding Payments to Quebec

Mr. Parizeau also referred to some \$300 million in outstanding payments to Quebec. The breakdown of this figure is the following:

Hospital Insurance	\$ 35.8 million;
Post-Secondary Education	\$ 83.8 million;
Canada Assistance Plan	\$ 31.3 million;
Established Programs Financing	\$105.1 million; and
Sewage Treatment in Montreal	\$ 40.0 million.

Hospital Insurance. The amount of \$35.8 million for prior year adjustments for Hospital Insurance is correct. However payment cannot be made until Quebec signs the necessary agreement. This agreement was sent to the province on June 15, 1978 but has not yet been returned.

Post-Secondary Education. The \$83.9 million for Post-Secondary Education is in respect of 1974-75, 1975-76 and 1976-77. Approximately \$30 million in respect of 1974-75 will be paid this year. Claims in respect of the other years are being processed in the normal way, for all provinces. The Department of the Secretary of State is awaiting an auditor's report for 1975-76. The Department has not received a final claim from Quebec for 1976-77.

Canada Assistance Plan. The claim for \$31.3 million under the Canada Assistance Plan is in respect of 1977-78 and is probably high. Moreover, it appears that Quebec has been overcompensated under the program for prior years and that it is likely that recoveries will have to be made by the federal government.

Established Programs Financing. The \$105.1 million for Established Programs Financing arises from adjustments to the base year contributions. Although the Quebec estimate appears somewhat high, the correct amounts will be paid. Quebec was informed of this decision on November 2, 1978.



Sewage Treatment in Montreal. A first instalment of \$50 million for this program was paid on March 31, 1978. A second instalment of \$40 will be paid once certain accounting requirements relating to the first instalment have been met. Quebec was informed of this on November 2, 1978.

RCMP Contracts

Mr. Parizeau restated Quebec's long-standing claim that the federal government should compensate Quebec for costs of its provincial police force in the same manner as it contributes to police costs in those provinces which have contracted for the services of the RCMP. Provision of provincial and municipal police services is a provincial responsibility. Quebec can always enter into the same "purchase of service" arrangement as other provinces. This situation also applies to Ontario which has its own provincial police force and does not receive federal compensation.

Flood Control

Mr. Parizeau claimed that federal spending cuts will leave Quebec to "pick up the tab" for flood control projects in the Montreal region. Under this 50-50 shared-cost program, all projects begun this year can in fact be completed within the amounts budgeted. The only effect of federal spending reductions will be that work beginning next year will not proceed as quickly as originally planned. The federal government will pay its full share of costs over the life of these projects.

Value of Special Abatement to Quebec

Mr. Parizeau suggests that either the Quebec Government is losing some \$35 million or individual Quebec taxpayers are paying \$35 million more in income taxes because of the relationship between the special abatement of 16.5 per cent accorded Quebec residents and the federal tax reduction for low income taxpayers.

Analysis of federal tax statistics indicates that the amount involved is only about \$18 million. Mr. Parizeau apparently assumes that the new refundable child tax credit will aggravate this problem. This is not true. The refundable child tax credit will not affect the value of the abatement to individuals.

The federal government is looking into ways of eliminating this anomaly for Quebec taxpayers.



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Quebec reiterates its willingness to assume a  
determinant role in the Development of Ocean Fisheries on  
the Atlantic Coast

by

Mr. Rodrigue Tremblay

Ottawa  
November 27-29, 1978



Statement by Mr. Rodrigue Tremblay  
Minister of Industry and Commerce  
and minister responsible for ocean fisheries

QUEBEC REITERATES ITS WILLINGNESS TO ASSUME A  
DETERMINANT ROLE IN THE DEVELOPMENT OF OCEAN FISHERIES ON  
THE ATLANTIC COAST

1. HISTORY OF GOVERNMENT INTERVENTION IN OCEAN FISHERIES

Section 91(12) of the BNA Act gave the Parliament of Canada exclusive legislative authority over fisheries. However, in an agreement in 1922 (and then in 1943 concerning the Îles-de-la-Madeleine), the federal government surrendered to Quebec full administration of fisheries in Quebec navigable tidewaters, accessible from the sea by navigation. The Agreement was not amended until 1959, when the federal government took over inspection of fish for export purposes. Since 1922, therefore, Quebec has enforced the regulations set forth by the federal government within the framework of the Fisheries Act.

1.1 Intervention of Quebec in ocean fisheries

In carrying out its mandate, Quebec can propose new regulations or amendments to existing regulations to the federal government, but only the federal government can make them official. Quebec has set up a Protection Service which is responsible for enforcing fisheries regulations.

Quebec has developed various programs of technical and financial assistance to the fisheries industry and to fishermen, as well as research programs it undertakes alone or jointly with federal agencies.

### 1.2 Intervention of the federal government in the ocean fisheries sector

The federal authority passes legislation, formulates or amends regulations and, except in the case of Quebec, enforces them. It also conducts research, sets the fishing quotas and issues trawling permits in Quebec and all the various types of permits in the other Atlantic provinces. The Canadian Fisheries Department also develops and administers programs of financial and technical assistance to fishermen and the fishing industry.

The federal government is the manager of the resource. In this regard, it adopted the "Canadian Policy on Commercial Fisheries" in 1976. Within this framework it has set up an internal administrative and consultative structure for management of coastal and deep-sea fishing in Eastern Canada. The provinces are excluded from it, although some provincial officials are invited to take part as experts, on commit and sub-committees. The decision-making power is chiefly in the hands of federal officials.

### 1.3 Federal-provincial consultation

Quebec sits on several federal-provincial committees, the most important of which is undoubtedly the Federal-Provincial Committee on Fisheries in the Northwest Atlantic made up of the federal and provincial deputy ministers whose mandate is in principle to advise the federal minister on various questions.

## 2. IMPORTANCE OF THE QUEBEC OCEAN FISHING SECTOR

In the economy of Quebec, the ocean fishing sector is of relatively small importance. The gross value of primary production was estimated in 1977 at approximately \$21 million (ocean perch included) whereas after processing the value is almost double, that is, \$40 million. This sector contributes less than one per cent to Quebec's GNP.



On the other hand, ocean fishing constitutes an essential economic and social factor on the regional level. It employs 50% of the labour force on Îles-de-la-Madeleine, 70% on the Lower North Shore, and about 30% in the Gaspé. The Upper North Shore, Bonaventure and the regions of Matane and the Lower St Lawrence also have significant fishing activities. In 1977, it was estimated that these regions had almost 6,500 fishermen. Further, in 1975, an average of 1,243 persons were working in fishing businesses.

However, most Quebec plants are supplied by an aging fleet and often operate at less than fifty per cent capacity. In comparison with the other Eastern Canadian provinces, Quebec's share of the total catch was only 4.8 per cent in 1977.

### 3. FEDERAL AND QUEBEC POLICY FOR THE DEVELOPMENT OF OCEAN FISHERIES

#### 3.1 The federal position

To combat the over-exploitation of the resource by foreign countries, the result of which was a decline in the Canadian catch, the federal government launched in May 1976 its "Canadian policy on commercial fisheries". The purpose of this policy is to replenish stocks by means of careful management and fishing. This new orientation will improve, stabilize and increase the income of fishermen and increase the production of the existing plants. It will promote the development of the fleet and will introduce control of the fishing industry at a level determined by the federal Department of Fisheries.

In conjunction with the establishment of this policy, in January 1977 the Canadian government extended its jurisdiction over the fishing zone to two hundred miles. It is presently negotiating at the international level to obtain the right to manage fishing beyond this zone.

More recently, the government defined its fisheries policy and programs for Canada (1975-1985). These are based on the principles and perspectives contained in the "Canadian policy on commercial fisheries" and they take into account the new Canadian jurisdiction. The federal government plans to increase the Total Allowable Catch (TAC) for certain species and to increase the quotas for Canadian fishermen in the 200-mile zone.

### 3.2 The Quebec position

Ocean fisheries were one of the Quebec government's priorities at the economic summit on this topic held in Gaspé in the spring of 1978. It also announced the decentralization of its Direction générale des Pêches maritimes and expressed the desire to promote the development of Quebec's ocean fisheries; to fully assume its administrative responsibilities, including those connected with resource management; and to enable Quebec fishermen to take advantage of the new stocks available in the recently-created 200-mile zone.

These concerns were outlined in the memorandum presented to the federal Minister of Fisheries by Quebec's Minister of Industry and Commerce in the course of a December 19, 1977 meeting. They have been discussed on many occasions, at sub-ministerial meetings. They are also found in the terms of reference assigned to the Quebec Minister at the federal-provincial meeting of ministers responsible for ocean fishing in Eastern Canada, held in Moncton November 10 last. They constitute the backdrop for the Five-year resource allocation strategy for the ocean fisheries of Quebec.

## 4. Role and claims of Quebec in the area of ocean fisheries

### 4.1 Role

Quebec intends to assume its full administrative responsibility in the fishing sector, as specified in the Agreement of 1922 (and 1943).

Quebec plans to introduce policies and measures, both at the internal and intergovernmental levels, to ensure development of the ocean fisheries sector in accordance with its own priorities and in light of the new fishing area created by the 200-mile zone.



#### 4.2 Claims

In 1950 Mr. Duplessis, in his proposal for a new distribution of powers, asked that fisheries be placed within the exclusive jurisdiction of the provinces. The recent claims made by Quebec in this matter are an extension of this position.

Quebec requests the following:

- 1) participation at all levels of the federal decision-making structure;
- 2) financial participation by the federal government in the refurbishing and development of the Quebec fishing fleet;
- 3) the issuing of all types of fishing permits for Quebec residents;
- 4) participation in discussions concerning agreements between foreign shipowners and Quebec fishing enterprises;
- 5) improved co-ordination of the activities, policies and programs of Quebec and Ottawa in the ocean fisheries area;
- 6) an increase in Quebec's ocean perch quota.



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Government of Quebec

First Ministers' Conference on the Economy

Remarks by Mr Jacques Léonard

on the question

of regional development

Ottawa, November 1978



Mr Chairman:

Quebec's approach to this discussion on regional development and the role DREE can and must play in it is clear and can be expressed by an observation and a specific proposal.

1 - An observation: DREE's objectives are not being fulfilled in Quebec.

The objectives of DREE are as follows:

- redistribution of wealth and economic activity to assist provinces experiencing difficulty;
- equal opportunity for all Canadians, regardless of their place of origin;

The ultimate goal is to combat regional disparities in Canada.

The facts demonstrate that Quebec is not deriving from DREE the benefits to which it is entitled.

- a) The creation of DREE has not resulted in any gains for Quebec. In fact, according to Living Together, a publication issued by the Economic Council of Canada, for every \$24 Quebec receives from DREE it pays \$25 in taxes toward the DREE budget, so Quebec is actually losing money in the transaction! In the case of DREE in Quebec, it is therefore a question of a simple redistribution of part of Quebecers' taxes rather than participation in a system which benefits us.

- b) According to DREE's annual reports, the proportion of funds it spends in Quebec has declined since its creation. Between 1969 and 1976 they represented 28.2 per cent of its total expenditures. The 1976-1977 annual report shows that Quebec's share declined to 22.4 per cent, with the per capita expenditure being \$16.85, compared with a national average of \$20.43. This places Quebec far behind six of the provinces, in which the per capita amount varies from \$47 to \$309.

The desire expressed during the First Ministers' conference of May 1973 to have DREE exercise a role of co-ordination in the federal government never materialized.

It might even be said that the reverse of this occurred, since it is DREE which must submit its projects to the sectorial departments so as to maintain a national approach.

These remarks, Mr Chairman, are simply a statement of the rules of the game as they now exist and are not directed against the present minister of DREE, who within the limitations imposed upon him has provided excellent co-operation for two years. But nobody can give something which he does not have or do something which the system will not allow him to do.

Despite the preceding remarks and in the hope that the coming reports might indicate a more just redistribution for Quebec, we are always prepared to co-operate with DREE, and for this reason I wish to make a very concrete proposal on behalf of Quebec.



2 - A concrete proposal: an economic priority

I do not feel that anyone here will argue against the provinces' being responsible for the management of their territory or the identification of the main elements involved in such management.

We feel that DREE must adhere to the provincial priorities and strategies for development in the administration of its funds, whether in the context of its Regional Development Incentives Act or of federal-provincial agreements.

One of our priorities in Quebec is 'to modernize the pulp and paper industry. Getting this industry back on its feet constitutes one of the key elements in our development strategy.

This industry alone generates 45,000 direct factory and forest jobs; the existence of at least 114 municipalities depends solely on the forestry industry; and it is the major industry in Quebec in regard to exports, accounting for a total export value of \$1.8 billion.

For many years the industry has been experiencing a decline in its competitive ability, despite temporary rallies occasioned by the devaluation of the dollar and other factors. Between 1950 and 1976 the industry's share in the American market declined from 40 per cent to 30 per cent. This was because the companies in Quebec invested little for modernization purposes during this period. They hesitate to do so because of the disadvantages they face in relation to the American companies as regards the cost of the wood, transportation of the finished product and so on.

As a result of three years of in-depth studies and painstaking consultations, the Quebec government has prepared a complete program for recovery. The investments required by the industry for modernization and pollution control are estimated to be \$1.3 billion dollars. Action by the governments therefore appears necessary if the industries are to use their resources to restore themselves to their competitive position.

We have estimated that the contribution of the governments in terms of forest access routes, silviculture, reforestation, changing of the pulp-making processes, diversification of production, environmental protection and so on will be in the vicinity of \$400 million.

Our program was officially forwarded to DREE on July 4 along with an expression of our wish to see it included in a subsidiary agreement.

Our meetings, especially the most recent ones, appear to have struck a responsive chord with the Minister of DREE, and in recent conversations serious consideration has been given to a figure of \$354 million. Will our proposal, which we feel is an excellent one and on which much of the negotiation has already begun, meet with an equally favourable response on the part of the federal government? We trust that it will, as for us this is a definite and urgent priority. We would hope that this agreement, which again is a matter of priority and urgency, will be signed within a month.

If you will permit, my colleague, the Minister of Lands and Forests, will now add a few essential details in regard to the project.

FEDERAL-PROVINCIAL CONFERENCE  
OF FIRST MINISTERS ON THE ECONOMY

Summary of Conclusions

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Ottawa  
November 27-29, 1978





## SUMMARY OF CONCLUSIONS

First Ministers' Conference on the Economy

November 27 - 29, 1978

### AGENDA

1. Economic Overview
2. Labour Market and Employment Issues
3. Progress Report
  - Overview
  - Agriculture
  - Research and Development
  - Government Regulation
  - Public Sector Compensation
4. Specific Items
  - Industrial Development
  - Tourism
  - Energy
  - Minerals
  - Fisheries
  - Regional Development
  - Transportation
5. Economic Co-ordination Process
6. Conclusion and Summing Up



## INTRODUCTION

First Ministers view the following conclusions as providing a broad framework and direction to be pursued in the ensuing months by Ministers responsible in each area. Apart from these conclusions which obtained a broad consensus, First Ministers direct their Ministers to consider the various initiatives proposed by individual First Ministers or contained in documents tabled for this meeting. Progress will be reported at the next meeting of First Ministers on the Economy.

## AGENDA ITEM 1: ECONOMIC OVERVIEW

1. First Ministers agreed that the basic objectives developed at their February meeting as the basis for co-ordinated action in the medium-term, remain valid. These include:
  - sustained growth of output and employment
  - a reduction of unemployment, and
  - a reduction in the rate of inflation.
2. All governments reaffirmed that the fundamental focus for growth must lie in the private sector, and noted the infrastructure demands of Canadian development will continue to demand the productive co-operation of the private and public sectors.
3. All governments agreed on the importance of continued restraint on prices and incomes, if the agreed objectives were to be attained, and international competitiveness maintained.
4. They recognized that the achievement of these objectives would be facilitated by continuing discussions to clarify or redefine the areas of responsibility of each level of government, and to reduce duplication in services.

5. First Ministers acknowledged the need for close consultation in the use of the fiscal instruments of government expenditure, taxation and borrowing; they also recognized the importance of national monetary and exchange rate policies and the need to supplement fiscal and monetary levers by a co-ordinated package of federal and provincial policies dealing with the structure of the Canadian economy and its sectoral and regional components.
6. In order to increase the efficiency, productivity and international competitiveness of Canadian industry, they reaffirmed the need to continue, in consultation with representatives of Canadian industry and labour, the development of both general industrial and specific sectoral policies.
7. Recognizing that business investment in private sector development and the more rapid growth of exports and displacement of imports, were vital to the increase in jobs required to meet their goals, First Ministers agreed to emphasize policies which would stimulate new productive investment from Canadian savings.
8. At the same time they agreed that continued restraint on public sector current spending, greater efficiency and effectiveness in the public services and tough but fair bargaining with public sector employees, should be fundamental aspects of medium-term planning by all levels of government.
9. All governments agreed that policies for resource and industrial development should be designed to reflect and reinforce available regional opportunities.

AGENDA ITEM 2: LABOUR MARKET AND EMPLOYMENT ISSUES

1. First Ministers agreed that employment and labour market policies and programs should be oriented towards the support of permanent employment growth in all regions, particularly the improvement of Canada's industrial competitive strength. Nevertheless, direct job creation programs will continue to play an important role in high unemployment areas; a greater proportion of the funds allocated to such programs should be concentrated in these areas.
2. The First Ministers affirmed their commitment to consultation by both federal and provincial governments prior to changes in their respective labour market programs.



3. They also agreed to further develop measures within the jurisdiction of each level of government to improve the effectiveness of labour markets in the 1980's. Such measures would be the basis for agreement and action.

AGENDA ITEM 3: PROGRESS REPORT

(1) Overview

1. First Ministers received a report on progress achieved on commitments made at their February meeting. Detailed discussion followed on:
  - agriculture,
  - research and development,
  - government regulation, and
  - public sector compensation.

AGENDA ITEM 3: PROGRESS REPORT

(2) Agriculture

1. The First Ministers agreed that stabilization programs are essential to protect producers from market fluctuations. The majority of the provinces endorsed the proposals for harmonization of stabilization made by the federal Minister of Agriculture. British Columbia expressed support for the principle of harmonization, but urged a flexible approach without the prior need to withdraw provincial stabilization programs. Quebec also supports the principle of harmonization of stabilization, but stated it could not allow the federal government to replace provincial stabilization programs with its own.
2. It was agreed that work on stabilization would be followed up by the federal-provincial technical committee as soon as possible. It was also agreed that work would continue to take into account the problem of regionally produced commodities.

3. First Ministers affirmed the importance of the grain industry to the national economy. The need for a long-term grain marketing strategy, as identified at the February Conference, was reaffirmed.
4. In responding to provincial ministers, the federal Minister of Agriculture agreed to work to further improve the industrial milk program and the market development strategy for Canadian agricultural products.

AGENDA ITEM 3: PROGRESS REPORT

(3) Research and Development

1. First Ministers re-emphasized the important contribution which science and technology can make to the economic and social welfare of Canadians. All Ministers indicated they gave a strong priority to the further development of industrial science and technology in Canada, taking into account the needs, strengths and aspirations of each region.
2. The Minister of State for Science and Technology reported on the November meeting of Ministers responsible for industrial research and development. First Ministers welcomed this evidence of the concrete and specific initiatives by federal and provincial governments in support of industrial Research and Development taken since February's Conference, noting the tax incentives introduced in recent budgets.
3. Ministers noted a number of areas for further collaboration in the field of science and technology including:
  - the extension of support to pre-production and other phases of the innovative process,
  - consideration of the use of procurement to promote and strengthen technology-intensive industries,
  - consideration of Centres of Excellence and the role which they and Industrial Innovation Centres can play in the transfer of technology,

- strengthening the research and development capacity of small business and their role in the whole innovative process,
- the Ministry of State for Science and Technology, in consultation with the provinces, should propose an action plan identifying industrial research and development goals where technological innovations could be successfully exploited by Canadian industry, and suitable mechanisms to encourage and stimulate the private sector to do this.

AGENDA ITEM 3: PROGRESS REPORT

(4) Government Regulation

1. First Ministers received the Economic Council's Regulation Reference: A Preliminary Report that resulted from the February Conference. They commended the Council for its extensive consultation with the private sector. Ministers supported the work of the Council, but suggested a reconsideration of research intentions concerning FIRA and telecommunications. Governments noted the significant steps underway to promote regulatory efficiency and open up the regulatory process. They agreed regulatory reform activity should continue.
2. First Ministers agreed to continue federal-provincial consultation, including an effective liaison with the Economic Council of Canada for the duration of its reference.
3. First Ministers stressed that all work on regulatory reform maintain an appropriate balance, by recognizing that many regulations are in the public interest.



AGENDA ITEM 3: PROGRESS REPORT

(5) Public Sector Compensation

1. First Ministers reviewed policies and actions respecting public service compensation.
2. They reaffirmed their view that the public sector should not lead the private sector.
3. Some of the difficulties involved in the measurement of total compensation and in private sector and public sector comparisons were discussed.
4. First Ministers stressed the importance of continuing consultation between governments and representatives of public service employees in resolving difficulties.

AGENDA ITEM 4: SPECIFIC ITEMS

(1) Industrial Development

1. First Ministers agreed that all governments must continue to work to develop an economic environment conducive to further growth of private sector investment, output and employment.
2. They noted that Canadian negotiators in the MTN must continue to strive to achieve maximum access to foreign markets for all Canadian products, but with special emphasis on fisheries products, agricultural products and resource based industrial products, and on gaining greater market access for Canada's high technology exports.
3. They agreed that all governments must work to develop co-ordinated adjustment assistance policies and programs to help industry adapt to new market opportunities, and to help employees and communities to adjust to increased competition.



4. First Ministers indicated that regional development must continue to have a high priority in Canadian industrial development; in particular Canadian industrial growth must be based on the resource base and skills of each region of the country.
5. They said that the Industry-Labour consultative process which has been developed since the February First Ministers' Conference has been successful and all governments must work to respond in a substantive way. It was agreed that the consultative process should be continued in a manner to be developed with all the concerned parties.
6. First Ministers affirmed that governments should work to ensure that the Canadian market is not unnecessarily fragmented through government purchasing practices. Work should continue to develop co-ordinated purchasing arrangements which will be of assistance to all regions of Canada.
7. The importance of small business was stressed by First Ministers, who agreed governments should continue to examine ways in which policies could be changed to facilitate the growth of entrepreneurship and employment within the small business sector.

AGENDA ITEM 4: SPECIFIC ITEMS

(2) Tourism

First Ministers discussed:

1. the importance of the tourism sector to the economic development of all regions of Canada;
2. the critical importance of continued co-operation and co-ordination amongst governments and with industry;
3. clarification of the role of each level of government and of the sharing of responsibilities in tourism;
4. the need for stronger promotion efforts in traditional markets and increased attention to growth markets such as Japan and Western Europe;

5. the importance of placing special emphasis on manpower training for the tourism industry;
6. the need to encourage and support selectively major Canadian tourism attractions and services;
7. the necessity of improving the competitiveness of air transportation to and within Canada through further deregulation, freer marketing and more competitive air fares and packages;
8. improvement in Statistics Canada's data base concerning the tourism industry to help development and marketing efforts.

#### AGENDA ITEM 4: SPECIFIC ITEMS

##### (3) Energy

1. First Ministers recognized the progress that has been made towards greater domestic energy development in pursuit of the self-reliance goal, as a result of current policies. They noted specific progress has been made since February on a number of important energy projects (see list at end of this item).
2. All governments agreed on the importance of developing new gas markets east of Alberta. To this end, First Ministers recognized the need for the rationalization of refinery surplus capacity in Eastern Canada and equitable treatment of gas relative to other energy forms. They also discussed incentive pricing of gas in new markets. First Ministers agreed to the creation of a federal government-Alberta task force, with provision for consultation with other interested provinces to identify mechanisms to achieve gas market expansion.
3. They stressed the importance to all regions of the country of greater energy self-reliance and the early development of major energy projects especially in the areas of heavy oils, oil sands and hydro-electric power. In this context, First Ministers noted in particular the benefits which energy development has for job creation and improving our balance of payments situation. As well, First Ministers recognized the possibility and benefits of additional exports of gas and refined oil products if surpluses still exist after taking into account present and future Canadian requirements.



4. First Ministers emphasized the value of regional co-operation in electric power matters and the potential importance of regional power grids in achieving greater utilization of hydro-electric resources. They also emphasized that this is consistent with the objectives of the proposed Maritime Energy Corporation, and the current power grid study undertaken by the four western provinces.
5. First Ministers stressed the desirability of continuing the major efforts already undertaken towards energy conservation and substitution, the development of renewable energy sources, and work in the area of new technology and energy research and development, such as the Alberta Oil Sands Technology and Research Authority.
6. They urged the continued development of the Canadian nuclear industry and an aggressive export policy consistent with the Canadian position on international nuclear safeguards.
7. Governments acknowledged the important contribution of the private sector in achieving national energy objectives.

Energy projects in which significant progress is being made:

- . Alsands oil sands mining project
- . Great Canadian Oil Sands expansion
- . Imperial Oil Cold Lake heavy oil project
- . Husky Oil heavy oil recovery program
- . Petro-Canada, Gulf, Saskoil heavy oil development program
- . Oil and Natural Gas exploration offshore, Newfoundland and Labrador
- . Hydro-electric power development in Baie James Québec and the Lower Churchill Newfoundland
- . Development of the Donkin coal mine in Nova Scotia
- . Accelerated "conventional" oil and gas development activity in Alberta and British Columbia



AGENDA ITEM 4: SPECIFIC ITEMS

(4) Minerals

1. First Ministers agreed that better consultation is required between the federal government and the provinces to harmonize more effectively policies and actions in areas of concurrent jurisdiction which impact on the mineral sector.
2. The Minister of Energy, Mines and Resources tabled, on behalf of the Minister of Finance, a Report on a federal-provincial review of the taxation of the petroleum and mineral industry which was undertaken at the request of First Ministers at their February Conference.
3. There was general agreement that where one level of government moves to reduce taxes on resource industries, the other level would not act to offset these tax-relieving benefits.
4. Governments should continue to consult on the appropriateness of further measures to provide greater stability and opportunity for the mining industry in Canada through the tax system.
5. First Ministers agreed that further federal-provincial consultation should take place before the federal government proceeds further with the proposed Nuclear Control and Administration Act and the Uranium and Thorium Mining Review Act.
6. All governments recognized the desirability of reducing Canada's trade deficit with regard to the manufacture of mining equipment.

AGENDA ITEM 4: SPECIFIC ITEMS

(5) Fisheries

1. First Ministers recognized:
  - the important economic and social benefits which Canada is presently realizing and which will increase in coming years as a result of the establishment of the 200 mile economic zone;



- the need for sound management practices matching marketing, processing and harvesting to the resource base available;
- the need for a prudent approach to ensure development is at a rate in harmony with the resource potential;
- the need to enhance where economically feasible this resource base for the benefit of all Canadians; and
- the need for governments to work in a spirit of co-operation to achieve the above objectives.

AGENDA ITEM 4: SPECIFIC ITEMS

(6) Regional Development

1. First Ministers reaffirmed their commitment to a strongly co-ordinated federal-provincial approach to reduction of regional disparities.
2. They stressed that regional development should be based on viable economic opportunities resulting from natural strengths such as fisheries, forestry, agriculture and tourism.
3. All governments agreed that co-operative federal-provincial initiatives under the General Development Agreement system, combined with a range of federal and provincial initiatives, provides a good basis on which to build.

AGENDA ITEM 4: SPECIFIC ITEMS

(7) Transportation

1. First Ministers agreed on the critical role played by a viable and equitable transportation system in Canada. They agreed that efforts to increase productivity should continue.
2. First Ministers agreed that transportation should be used as a tool for regional economic and social development. They noted that this objective was contained in Bill C-20, amendments to the National Transportation Act. They also noted that important freight rate issues including the maximum rate



formula and the long haul-short haul rate questions were addressed in Bill C-20. First Ministers generally agreed on the desirability of proceeding as quickly as possible with this Bill.

3. The First Ministers agreed that there should be a meeting at the earliest practical date to discuss the grain transportation and handling system. Participants would include the First Ministers of the four western provinces, the federal Minister responsible for the Wheat Board, the federal Minister of Agriculture and the Presidents of CP Rail and Canadian National Railways.

#### AGENDA ITEM 5: ECONOMIC CO-ORDINATION PROCESS

1. First Ministers agreed that it is essential to continue to discuss and co-ordinate federal and provincial approaches to Canada's economic problems through an improved federal-provincial framework for consultations, discussions and concerted decisions. They also agreed that First Ministers should meet periodically to review economic objectives and progress being made toward such goals.
2. The next meeting of First Ministers on the Economy would be late in 1979.
3. It was also decided that federal and provincial officials should study the question of suitable consultative arrangements leading up to the next Conference.